

## **CHAPTER 4: Volume 3: Audit Report on the Social Services Sector**

### **Section 23: Ministry of Education, National Heritage, Culture and Arts, and Higher Education Institution**

#### **Role and Responsibilities**

The Ministry is responsible for the delivery of Education and Training Services to schools, pre- schools, and training centers and it is also responsible for the preservation of the different cultures in Fiji. These include the provision of curriculum frameworks, policy – guidelines, qualified teaching personnel, and programmes support to controlling authorities and education. The Ministry also has responsibilities for ensuring that standards in education are met and maintained through the regulation and recognition of education. Through advisory services, support is rendered to school management for the effective running of schools as well as financial assistance for construction and maintenance of school facilities. The Ministry is also tasked with improving rural education standards and the education opportunities of disabled students and out of school youths. The Ministry has undertaken three (3) new initiatives and these include the establishment of the Fiji Teachers Registration Board, the formulation of the language policy and the establishment of seed capital for Poverty Relief Fund, which also co – funded by private public partnership scheme.

#### **PART A: FINANCIAL STATEMENTS**

##### **23.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Education resulted in the issue of a qualified audit report.

The management attention was also drawn to the following matters:

The Ministry of Education, National Heritage, Culture and Arts did not complete the annual Board of Survey for the whole Ministry. As a result, the correctness of the Statement of Losses submitted by the Ministry could not be verified.

##### **23.2 Statement of Receipts and Expenditure**

The Ministry of Education collected revenue totaling \$1,367,247 and incurred total expenditures of \$377,117,473 in 2014.

The state revenue increased by \$649,207 or 99% in 2014 compared to 2013. The increase was due to teachers paying registration fees for 3 year term instead of 1 year.

The agency revenue decreased by \$79,271 or 57% in 2014 compared to 2013. This was due to the decrease in request for recount, rechecks and certified copies of the exam results and decrease in sale of school farm produce.

The total expenditure increased by \$99,633,428 or 36% in 2014 compared to 2013 as a result of the following:

- Pay rise for all Civil Servants as per PSC Circular No. 81/2013 dated 19/12/13.
- Payment of overtime for Government Wage Earners for the various units/section working overtime to meet the Ministry's output.
- Increase of transfer of teachers around the country and the payment of meals and subsistence allowances and accommodation for officers working overtime and those on school visits.
- Purchases of office equipment, furniture and stationeries for the sections and district Office.
- Implementation of the Free Education Grants to all Primary and Secondary Schools and no fees were borne by parents.
- Increase in implementation of MOE initiatives and requests for assistance from schools.
- Implementation of new projects like the Establishment of New Schools and upgrading and maintenance of government schools due to its deteriorating state.
- Purchase of laptops for the One Laptop per Child Program and water tanks for primary schools.
- Construction of Infant Schools and the New Bau Central College Building and grants to secondary schools.

The committee was informed that the percentage increase was 98 percent which was mainly due to the increase in teacher registration fees. The expenditure of the Ministry, ladies and gentlemen, also increased by 36 percent as more capital works were carried out by the Ministry and also, increased grants were paid out to schools.

### **23.3 Appropriation Statement**

The Ministry incurred expenditure totaling to \$377,117,473 in 2014 against a revised budget of \$370 million, resulting in an overspending of \$7.1 million to round it off, or 2 percent.

The table 23.2 in the Auditor-General's Report shows details of expenditures. SEG 1 is on Established Staff; SEG 2 - Government Wage Earners; SEG 3 - Travel and Communications, and it goes right down to SEG 10 - Grants and Transfers.

#### **23.4 Statement of Losses**

There was no loss of money reported for the Ministry in 2014.

The Minister for Finance on 13/03/15 approved the write-off of unsubstantiated variance between the Drawings Account and General Ledger amounting to \$6,834,145.33. In addition, items worth \$4,033 were lost due to theft while \$19,182 was written off following the board of survey at the Ministry's headquarters.

### **PART B: AUDIT FINDINGS**

#### **23.5 Over-Expenditure**

Each year, the Appropriation Act and Budget Estimates set out details of the appropriations that Cabinet approves for spending by each agency. No officer may incur expenditure, which results in the agency's appropriation being exceeded without the authorization of the Ministry of Finance, pending approval by Cabinet. (Finance Instructions 2010 – Section 7)

The audit noted that for the financial year 2014, the Ministry had over spent the funds allocated for Established Staff and Government Wage Earners by \$9,730,704 and \$479,783 compared to the revised budget of \$245,494,488 and \$2,400,804 respectively.

The over-expenditure was due to incorrect Person to Post listing used while preparing the budget submission for the year ended 31 December 2014.

Incurring expenditures in excess of the budgetary allocation indicates poor budgeting and financial management.

The committee was informed that the Ministry's budget had been prepared in accordance with the revised 'P to P' that was affected soon after that. This ensured that the Ministry does not incur any overspending in SEGs 1 and 2 in the future. The Ministry also looked into the calculation of location allowance and this was reviewed and increased in the 2016 Budget.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that proper planning and monitoring is in place to manage funds wisely; and
- Ensure that an accurate Person to Post listing is used to request payroll budget.

## 23.6 Statement of Losses

An Annual Losses statement shall be prepared by the Senior Accounts Officer, Operations for inclusion in the Agency's Annual Financial Statement as and when required. (Ministry of Education Finance Manual 2013 Section 14.1.7) The Losses statement shall provide information on losses written off during the financial year and the status of recoveries of losses. (Ministry of Education Finance Manual 2013 Section 14.1.8)

All Permanent Secretaries shall appoint a Board of Survey annually to determine whether government plant, equipment and inventories under his or her control are:

- a) In working condition or serviceable;
- b) Unserviceable or obsolete; and
- c) Surplus to the requirements of that agency. (Procurement Regulations 2010 Section 24.1)

The audit noted that the Ministry had only carried out the 2014 board of survey for Headquarters. However, the board of survey for Government Schools, Divisional Education Offices and other sections of the Ministry were yet to be finalized. Refer to Table 23.4 for details.

**Table 23.4: Board of Survey Yet To Be Finalized**

| BOS not Yet Completed                 |
|---------------------------------------|
| <b>Government Schools</b>             |
| Ratu Kadavulevu School                |
| Queen Victoria School                 |
| Adi Cakobau School                    |
| Laucala Bay Secondary School          |
| Nasinu Secondary School               |
| Natabua High School                   |
| Vunisea Secondary School              |
| Suva Grammar School                   |
| Delainamasi Primary School            |
| Natabua Primary School                |
| <b>Sections</b>                       |
| Schools Broadcast Unit                |
| Secondary Section                     |
| Fiji Teacher Registration Board       |
| Curriculum Development Unit           |
| TVET Section                          |
| Culture                               |
| <b>Divisional Education Offices</b>   |
| Ba Education Office                   |
| Ra Education Office                   |
| Northern Education Office             |
| Cakaudrove Education Office           |
| Divisional Education Office – Central |
| Divisional Education Office – Eastern |

The above finding indicates poor planning in conducting board of survey for the whole Ministry. As a result, the correctness of the Statement of Losses submitted by the Ministry could not be verified.

The committee was informed that as of 2015, proper and timely Board of Surveys was done for all sections and stations and Government schools, to ensure that our losses and write-offs are accordingly accounted for.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Annual Board of Survey is conducted before agency financial statement audit to ensure losses are properly disclosed; and
- All losses of cash, assets and write-offs are included in the Statement of Losses to the Agency Financial Statements.

### 23.7 Substantial Variance in Drawings Account

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instruction 2010 – Section 32 [6])

The Permanent Secretary must appoint a Board of Survey to conduct a physical stock take of all cash on hand and other stocks held in safes at least once a year. (Finance Instruction 2010 – Section 31 [5]) Any discrepancies must be accounted for and brought to the attention of the Permanent Secretary through the Board of Survey Report. (Finance Instruction 2010 – Section 31 [6])

The audit noted a reconciled variance of \$315,229 between the Ministry's drawings account reconciliation and FMIS general ledger balance as at 31 December 2014. Refer to Table 23.5 for details.

**Table 23.5: Variance in Drawings Account**

| Account Description | Balance as per Drawings Account Reconciliation (\$) | Balance as per FMIS (\$) | Variance (\$) |
|---------------------|---|--------------------------|---------------|
| Drawings Account    | 6,153,053   | 5,837,824                | 315,229       |

The non-reconciliation of drawings account and poor monitoring by the Ministry has resulted in the variances highlighted above. As a result audit was not able to ascertain whether all payments were properly recorded in the general ledger.

The committee was informed that the necessary adjustments have been done by the MOE and the agencies' bank reconciliation is still done by the FMIS Unit at the MOE.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Proper reconciliation is carried out on a monthly basis; and
- Liaise with Ministry of Finance to rectify the variance and take appropriate action.

### 23.8 Revolving Fund Account with Credit Balance

Within 3 days of receiving the monthly general ledger reports from the Ministry of Finance, the Accounts Officer shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement (Finance Manual 2011 – Ministry of Education Section 16.3.3)

The audit verification of the Revolving Funds Account (RFA) reconciliation revealed the following RFA account had credit balances as at 31/12/14. Refer to Table 23.6 for details.

**Table 23.6: RFA Account with Credit Balances**

| Account              | Description         | Amount (\$) |
|----------------------|---------------------|-------------|
| 1-21101-21999-570101 | AP Prepaid Expenses | 574,007     |

The credit balance of the Revolving Funds Account resulted from incorrect journal entries passed to these accounts.

As a result, the audit could not ascertain the accuracy for RFA balance as at 31/12/14.

The committee was informed that necessary adjustments were addressed and were done to rectify the problem and correct JVs (Journal Vouchers) were passed.

The Committee concurs with the Auditor General's recommendations that the Ministry must investigate and rectify the credit balance.

### 23.8 Significant Balances in Operating Trust Fund Account

Operating Trust Fund Account consists of other moneys that were recorded as trust such as salary deductions payable to other entities, insurance premium deductions from employees, Fiji National Provident Fund deductions from employees etc. The Ministry must ensure that moneys kept in trust fund account are paid to relevant authorities in the following month.

The audit noted that Ministry's several operating Trust Fund accounts had significant balances over the years.

Significant balances in the Operating Trust Fund account indicates that monies kept in Trust Fund were not paid to relevant authorities on time and/or unaccounted balances are maintained in the operating Trust Fund account.

As a result, the Ministry is unnecessarily accumulating liability.

The committee was informed that the balances were rectified in January 2015. The Accounts Officer is closely monitoring the balances now; timely reconciliations are done and reported to the Permanent Secretary and the Honourable Minister for Education, to ensure compliance.

The Committee agrees with the Auditor General's recommendations that the Ministry:

- must ensure that all salary deductions kept in Trust Fund accounts are paid to the relevant authorities in a timely manner; and
- investigate the significant balances in the operating Trust Fund account balance as at 31/12/14 and take appropriate action.

### **23.10 Uneconomical Purchase**

The quotation process is intended to ensure that the agencies receive value for money based on fair competition and ethical dealing. (Fiji Procurement Regulation – Guide to procurement process for purchase below \$50,000 – Section 4.0) A minimum of three competitive quotations must be obtained for the procurement of goods, services or works valued more than \$1,000 and less than \$50,000. (Procurement Regulation 2010 – Section 29 (1))

The Ministry purchased a wide range of office items from Supplier A in 2014. These items included, official Government envelopes, toners for printers, imported office chairs, computers and office equipment's. The Ministry obtained 3 quotes for purchase of various office items. However 1 of the quotes was always obtained from Supplier A while the other 2 were obtained from other suppliers.

The audit noted that Supplier A always provided the lowest quotes and the Ministry purchased most of the office items from Supplier A. However the Ministry when obtaining quotes did not consider some of the reputable suppliers of official Government envelopes toners for printers, imported office chairs, computers and office equipment's.

The audit obtained independent quotations for several items from a sample of reputable supplies to compare the prices offered for the items supplied by Supplier A. The independent quotes revealed that the prices offered by the Supplier A were significantly higher compared to the prices offered by some of the reputable suppliers.

However the Ministry considered appropriate to buy several office items from Supplier A at much higher prices. The prices paid by the Ministry were 18% to 68% higher than the independent quotes obtained by the audit for the same items from reputable suppliers. Refer to the Table 23.8 for example.

**Table 23.8: Independent Quotes Obtained by Audit**

| Voucher Number | Items               | Quantity | Supplier A    | Independent Price by Audit (\$) | Variance in Price (\$) | Variance in (%) |
|----------------|---------------------|----------|---------------|---------------------------------|------------------------|-----------------|
| 328519         | 8 bay Compactors    | 4        | 27,800        | 22,000                          | 5,800                  | 21              |
| 327673         | L Shape Table       | 4        | 4,920         | 1,596                           | 3,324                  | 68              |
| 327673         | 4 drawer cabinet    | 5        | 2,975         | 1,900                           | 1,075                  | 36              |
| 327673         | Executive Chair     | 2        | 1,220         | 704                             | 516                    | 42              |
| 330184         | Visitor's Chair     | 15       | 3,150         | 1,485                           | 1,665                  | 53              |
| 325693         | Wooden Book Shelves | 15       | 7,725         | 1,785                           | 5,940                  | 77              |
| 300150         | 15 x 10 envelop     | 50 box   | 5,500         | 3,955                           | 1,545                  | 28              |
| 302677         | 10 x 12 envelop     | 50 box   | 4,750         | 3,877                           | 873                    | 18              |
| 308555         | 9 x 4 envelop       | 40 box   | 2,690         | 2,044                           | 646                    | 24              |
|                | 15 x 10 envelop     | 40 box   | 4,600         | 3,164                           | 1,436                  | 31              |
| 323809         | 15 x 10 envelop     | 50 box   | 6,000         | 3,955                           | 2,045                  | 34              |
| 306197         | Desktop computer    | 1        | 2,507         | 1,825                           | 682                    | 27              |
| 305173         | Desktop computer    | 1        | 1,995         | 1,825                           | 170                    | 9               |
| <b>Totals</b>  |                     |          | <b>75,832</b> | <b>50,115</b>                   | <b>25,717</b>          |                 |

For the sample of items for which the audit compared the price with reputable suppliers the Ministry paid \$25,717 extra by purchasing those items from Supplier A.

The finding indicates that the Ministry's procurement officers did not carry out proper price comparison before purchasing goods and services from Supplier A. In addition competitive quotations were intentionally not obtained from reputable suppliers in order to defraud the government by legitimatizing purchases from Supplier A as the lowest cost supplier.

As a result public funds were wasted for not purchasing from the most economical source.

The committee was informed that the findings indicate that the Ministry's Procurement Officers did not carry out proper price comparison before purchasing goods and services. The matter was investigated internally at the Ministry of Education and they informed the Ministry that there was no breach of the procurement process and the purchases made by the Ministry were fully supported with the required documentation. The committee was further advised that the Ministry have centralized all our procurement since 2016.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Investigate this matter further and take appropriate disciplinary action; or
- Report the matter to FICAC for further investigation and action.



### 23.11 Envelops Purchased But not Delivered by the Supplier

As a best practice, each agency must have in place a cost effective system of internal controls which safeguards money and property against loss.

The Clerks and Storeman shall maintain the inventory register to record incoming and outgoing inventories. The inventory register shall provide the following information:

- i) Date of acquisition and order number reference;
- ii) Number of items received and cost price;
- iii) Suppliers details;
- iv) Date of issue of inventory and nature of issues (for example, transfer of processing);
- v) Issue reference (authority such as requisition order); and
- vi) Quantity issued. (Ministry of Education Finance Manual 2013 Section 8.1.3)

All the stationeries for the Ministry's Headquarters are received and maintained at the storeroom located at the Examination Office.

The Ministry on 29/04/14 purchased envelopes costing \$7,240 from Supplier A. The review of the inventory register maintained by the Storeman at Ministry of Education revealed that envelopes purchased were not recorded at all in the inventory register indicating that the envelopes were not received by the Storeman. Refer to Table 23.9 for details.

**Table 23.9: Payment Made for Envelopes Not Received**

| Cheque Number | Date     | Voucher Number | Particulars            | Amount (\$) |
|---------------|----------|----------------|------------------------|-------------|
| 030455        | 29/04/14 | 308555         | 40 box 9x4 envelop     | 2,690       |
|               |          |                | 40 box 15 x 10 envelop | 4,600       |

Furthermore the Supplies Officer on 04/06/2015 confirmed that he did not receive the envelopes as stated in the management comments. The audit also noted that the Acting Principal Accountant signed the invoice submitted by Supplier A as "Received by" to facilitate payment even though no envelopes were received by him.

The finding indicates that the Acting Principal Accountant did not follow proper procurement process. There is a high risk of fraud and collusion between the Acting Principal Accountant and Supplier A.

The committee was informed that the envelopes were received by the storeman but were not recorded accordingly. The envelopes were recorded in the inventory register later on and the storeman did confirm receiving the envelopes.

The Committee agrees with the Auditor General's recommendations that the Ministry should investigate the matter and take appropriate action.

## 23.12 Fraudulent Amendment of Request to Favour Supplier A

The proper management of expenditure is fundamental to ensuring value for money in delivering services to the community. As well, having cost effective internal controls within the purchasing and payment system play an important part in ensuring that waste of funds, over expenditure and corruption do not occur. (Ministry of Education Finance Manual 2013 – Part 2)

The quotation process is intended to ensure that the agencies receive value for money based on fair competition and ethical dealing. (Fiji Procurement Regulation – Guide to procurement process for purchases below \$50,000 – Section 4.0) A minimum of three competitive quotations must be obtained for the procurement of goods, services or works valued more than \$1,000 and less than \$50,000. (Procurement Regulations 2010 – Section 23[1])

The audit scrutiny of the payment voucher details revealed that the Officer submitted requisition for the purchase of mini conference chairs to the Acting Principal Accountant with 3 quotations. The Officer recommended that the chairs to be purchased from company 3 because of its quality. Refer to Table 23.10 for details of the quotes.

**Table 23.10: Quotes for Purchase of Mini Conference Chairs**

| Company   | Price Quoted (\$) |
|-----------|-------------------|
| Company 1 | 1,590             |
| Company 2 | 1,170             |
| Company 3 | 1,500             |

However, another quotation from Supplier A was obtained which quoted the same price as Company 1. (The audit could substantiate who obtained the quote from Supplier A)

The Acting Principal Accountant on 05/02/14 authorized the purchase of 6 mini conference chairs for the Human Resource Management Unit (HRM) costing \$1,590 from Supplier A.

The Acting Principal Accountant did not consider purchasing the chairs from Company 1 which offered the same price as Supplier A.

The finding shows the Acting Principal Accountants deliberate attempt to provide business to Supplier A when same products were provided by Company 1 for the same price.

The committee was informed that the internal audit highlighted that there were no amendments done to favour a particular supplier. The findings also stated that the Acting PAO at that time was not engaged in getting quotes or selected suppliers; he just approved them as it came through the LPOs upon request.

The Committee agrees with the Auditor General's recommendations that Ministry should investigate the matter and take appropriate action against the responsible Officer.

### **23.13 Unwarranted Purchase of Stationery**

Upon receipt of the goods, services or works, the receiving officer shall verify that their receipt is in good order and that the invoice is in accordance with the LPO. (Ministry of Education Finance Manual, 2013 Section 2.5.9)

The audit noted several instances of purchase orders issued to Supplier A for purchase of stationeries and office equipment without requisitions from sections heads at the Ministry. The purchase orders for Supplier A were mostly issued by the Supplies and Transport Officer at the Ministry's Headquarters, and approved by the Acting Principal Accounts Officer.

Therefore several office stationeries and equipment were purchased from Supplier A without any requisitions from staffs or section heads.

The audit also noted that Supplier A on several instances supplied office stationeries in excess of the quantity ordered by the Ministry. In addition the Officers receiving the stationeries, at the Ministry's Headquarters did not at any time notify Senior Officers about the excess supply compared to quantity ordered.

The Acting Principal Accounts Officer also continued to process the payments to Supplier A without questioning the oversupply of several stationery items.

The audit further noted that the Receiving Officers at the Accounts section did not record the stationary items received or issued to various sections at the Ministry. The audit was not able to substantiate how the stationery items were used by the Ministry, including the over supplied items.

The finding indicates deliberate circumventing of controls in procurement of stationeries and office equipment. In addition it is highly likely that the Ministry's Officers may have colluded with the supplier to defraud the government through excessive purchases.

The committee was informed that the Ministry now is stringent in its procurement processes to ensure compliance. The Ministry also has a separate procurement team, who facilitates the purchases for all sections to ensure compliance.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Implement appropriate internal control in the procurement of goods and services; and

- Investigate the matter and take appropriate action.

### **23.14 Purchase of Items from Unauthorized Suppliers**

Permanent Secretaries must ensure that all standing offer contracts executed by the Fiji Procurement Office on behalf of Government are complied with at all times. (Procurement Regulation 2010 – Section 35)

The ITC steering committee on 12/12/13 awarded the tender for the supply of Desktop Computer to Office Product for whole of Government Ministries and Departments. (ITC Contract 1/2013 – supply of desktops and laptops)

The Fiji Procurement Office awarded Tender No CTN 27/2012 on 30/07/12 to various companies for supply of stationeries until 25/07/14. (Ministry of Finance Circular – Tender No CTN 26/2012)

The audit noted that the Ministry failed to comply with standing offer contracts and purchased Desktop Computers and various office stationeries from Supplier A. The audit further noted that the items purchased from Supplier A were expensive compared to the prices offered by the approved contracted suppliers.

For the sample of items that audit reviewed and compared the price with approved contracted suppliers, the Ministry paid \$3,516.42 more by purchasing these items from Supplier A.

The finding shows that the Ministry did not follow the proper procurement process when purchasing Desktop Computers and office stationeries resulting in extravagant expenditure. The purchases from Supplier A may be intentional to defraud the government.

The committee was informed that the matter was investigated by the internal audit team within the Ministry and the respective staff were cautioned and transferred out of the Accounts Section. The Ministry is now strictly following the procurement process with the establishment of the new Procurement team.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Investigate the matter and take appropriate action; or
- Report the matter to FICAC for further investigation and action.

### **23.15 Items Received with Undated Invoice and Delivery Docket**

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important

part in ensuring that waste of funds, over-expenditures and corruption do not occur. (Ministry of Education Finance Manual 2013 – Part 2)

Upon receipt of the goods, services or works, the receiving officer shall verify that their receipt is in good order and that the invoice is in accordance with the LPO. (Ministry of Education Finance Manual, 2013 – Section 2.5.9)

The audit observed that the Transport and Supplies Officer kept several items supplied by Supplier A around his workstation on the date of audit 16/12/14. Refer to Table 23.14 for details on items as per the invoice.

**Table 23.14: Details of Items Noted on the Invoice**

| Description                               | Quantity | Unit Price (\$) | Total (\$)      |
|---|----------|-----------------|-----------------|
| Spiral comb 8mm                           | 2        | 14.50           | 29.00           |
| Spiral comb 10mm                          | 2        | 18.50           | 37.00           |
| Spiral comb 12mm                          | 2        | 19.95           | 39.90           |
| Spiral comb 14mm                          | 2        | 26.50           | 53.00           |
| Spiral comb 16mm                          | 2        | 27.50           | 55.00           |
| Spiral comb 18mm                          | 2        | 29.50           | 59.00           |
| Spiral comb 20mm                          | 2        | 35.00           | 70.00           |
| Spiral comb 22mm                          | 2        | 39.90           | 79.80           |
| Spiral comb 38mm                          | 2        | 60.00           | 120.00          |
| Spiral comb 41mm                          | 2        | 64.50           | 129.00          |
| Spiral comb 51mm                          | 2        | 75.00           | 150.00          |
| Only TN2250 Toner - Black                 | 4        | 195.00          | 780.00          |
| Fax Toner 3220                            | 1        | 785.00          | 785.00          |
| Pkt Vanguard Sheet Full Size x 100        | 6        | 275.00          | 1,650.00        |
| Sets CE 310 Series Toner : Black & Colour | 3        | 775.00          | 2,325.00        |
| <b>Total</b>                              |          |                 | <b>6,361.70</b> |

The audit review of the process through which these items were purchased revealed the following anomalies:

- The invoice and delivery docket for these items were not dated to indicate the day the items were received and invoiced. In addition the purchase orders were not issued for the items supplied by Supplier A. As at the date 16/12/14 of audit no payment was made for these items.
- The Transport and Supplies Officer did not have the requisitions for the purchase of these items. Hence the items were procured in excess to the requirements of the Ministry.
- Physical verification of the items received with the invoice noted that the items costing \$1,271 were not supplied by Supplier A but invoiced for payment. Refer to Table 23.15 for details.

**Table 23.15: Items not supplied by Supplier A**

| Item              | Quantity as per invoice | Quantity Physically Verified | Variance | Unit Price (\$) | Total (\$)      |
|-------------------|-------------------------|------------------------------|----------|-----------------|-----------------|
| Spiral comb 8 mm  | 2                       | 1                            | 1        | 14.50           | 14.50           |
| Spiral comb 10 mm | 2                       | 1                            | 1        | 18.50           | 18.50           |
| Spiral comb 18 mm | 2                       | 0                            | 2        | 29.50           | 59.00           |
| Spiral comb 41 mm | 2                       | 0                            | 2        | 64.50           | 129.00          |
| Vanguard sheet    | 6                       | 5                            | 1        | 275.00          | 275.00          |
| Toner CE 310      | 3                       | 2                            | 1        | 775.00          | 775.00          |
| <b>Total</b>      |                         |                              |          |                 | <b>1,271.00</b> |

There is a high risk of fraud and collusion between the Transport and Supplies Officer and Supplier A.

The committee was informed that the matter was investigated by the internal audit team and the respective staff were cautioned and transferred out of Accounts Section. The Ministry is now strictly following the procurement processes that are now being established and are now in place.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Investigate the matter and take appropriate action; and
- Implement stringent internal control for purchase of good and services.

### **23.16 Invoice Issued in Sequential Order**

In a normal business transaction, a supplier of goods and services would have many customers and the invoices would be distributed among all the customers.

The Ministry processed 151 invoices totalling \$637,950.55 for Supplier A during 2014. The audit listed a sample of invoices issued by Supplier A to the Ministry in an ascending order and noted that the invoice numbers were mostly in sequence with a few gaps only.

This indicates that the Ministry of Education was the major customer for Supplier A. Out of the first 47 invoices, 31 or 66% of the invoices were issued to the Ministry and only 16 invoices were issued to buyers other than the Ministry.

Significantly large number of invoices issued in sequence to the Ministry from Supplier A indicates high risk of favouritism and collusion by the Ministry's Officer with Supplier A.

The committee also noted that the internal audit team investigated the matter and highlighted that the supplier had kept a separate invoice book for the Ministry of Education and that was the only reason as to why the numbers were in sequence.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Cease purchases from Supplier A; and
- Investigate the matter and take appropriate action.

### **23.17 No Segregation of Duties**

All Directors/Section Heads/School Heads must now take charge of all purchase from their respective sections and allocations and must ensure that the purchases are approved by them. They are also responsible for on-line approvals of all purchase orders raised from their sections. They must be accountable of all purchase orders raised from their sections. They must be accountable for all purchases and ensure that the receipt of the goods is delegated to another person other than clerks/bursars/executive officers and assistant accounts officers as an internal control measure. (Ministry of Education Finance Manual 2013 Section 2.5.2 (a))

The Transport and Supplies Officer was mostly involved in facilitating the purchase of goods and services from Supplier A.

These includes raising request for purchase of goods and services, confirmation of availability of funds, obtaining quotations, raising of purchase order, receiving invoices, receiving delivery dockets, receiving and dispatching of cheques, and certifying the payment voucher as correct.

The audit noted that there were inadequate segregation of duties in the transactions performed for purchases of goods and services from Supplier A.

The above finding indicates ineffective internal control within the purchasing and payment process and laxity on the part of the Acting Principal Accountant to effectively scrutinize the payment vouchers before approving the payment.

The lack of segregation of duties increases the risk of misappropriation of funds and fraud.

The committee was informed that this issue was rectified in 2015 as the new Procurement Team was set up to ensure compliance in the Procurement and the Payment Process.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Ensure to implement appropriate segregation of duties within the purchase and payment process; and
- Investigate the matter and take appropriate action.

### 23.18 Free Education Grant (FEG) Loaned to a University

FEG shall be used solely for the purpose of facilitating learning and teaching in the school. (Financial Management in Schools section 5.4.2) Free Education Grant shall not be donated, loaned or borrowed by any person or organization. (Financial Management in Schools section 5.4.3)

The Ministry of Education disbursed total of \$2,474,952 as FEG to 12 secondary schools under the management of a religious organisation in 2014. The FEG given to the 12 secondary schools were managed and administered by the management of the religious organisation from their headquarters in Suva.

The audit noted that out of the total FEG given the schools in 2014, \$743,800 or 30% of the total grant was loaned to the University, which is also owned by the religious organisations, without the approval of the Ministry. As at 31/12/14 only \$61,000 or 8.2% of the total amount loaned was repaid by the University.

The audit also noted that for some of the schools more than 50% of the FEG was loaned out to the University during 2014 instead of giving the fund to the schools. For example total FEG provided by the Ministry to School (registration number: 1861) in 2014 was \$427,108. However the school management only provided the school with \$197,108 and the balance of \$230,000 or 54% was loaned to the University. The loan was not paid back to the school as at 31/12/14.

In another instance, the School (registration number: 2347) was given a total FEG of \$186,060 by the Ministry in 2014. However the school management loaned \$75,500 or 41% of the total FEG to the University. The school was only provided with \$111,060 or 59% of the total grant in 2014 instead of full \$186,060. The loan was not paid back by the University as at 31/12/14. Refer to Table 23.17 for more examples.

**Table 23.17: Details of loan and repayment as at 31 December 2014**

| School Registration Number | Total Grant Amount (\$) | Loan Amount (\$) | Percentage Loaned | Repaid Amount (\$) | Balance (\$)   |
|----------------------------|-------------------------|------------------|-------------------|--------------------|----------------|
| 1861                       | 427,108                 | 230,000          | 54                | —                  | 230,000        |
| 2330                       | 340,651                 | 65,000           | 19                | —                  | 65,000         |
| 2329                       | 214,170                 | 5,500            | 3                 | —                  | 5,500          |
| 3052                       | 363,367                 | 136,900          | 38                | 40,000             | 96,900         |
| 3054                       | 196,935                 | 50,000           | 25                | —                  | 50,000         |
| 1861                       | 150,255                 | 35,500           | 24                | 1,000              | 34,500         |
| 2340                       | 151,167                 | 25,000           | 17                | —                  | 25,000         |
| 2347                       | 186,060                 | 75,500           | 41                | 10,000             | 65,500         |
| 2384                       | 62,598                  | 20,000           | 32                | —                  | 20,000         |
| 1849                       | 249,333                 | 75,000           | 30                | 10,000             | 65,000         |
| 1059                       | 70,039                  | 15,400           | 22                | —                  | 15,400         |
| 1051                       | 63,269                  | 10,000           | 16                | —                  | 10,000         |
| <b>Total</b>               | <b>2,474,952</b>        | <b>743,800</b>   | <b>30</b>         | <b>61,000</b>      | <b>682,800</b> |



The committee was informed that the loan amount was refunded to respective schools and the case was also referred to FICAC. It was also noted that all 8th year schools are centralized and their grant funds are controlled by the Grant Team within the Ministry of Education.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Immediately request the school management to payback all FEG loaned to the University;
- Investigate the matter and take appropriate action; and
- Take appropriate disciplinary action against Divisional Education Officers for not monitoring the FEG.

### **23.19 Poor Condition of Schools**

As a best practice, the school management shall ensure health and safety at schools for all teachers and students. The school management are to provide and maintain an environment that is safe and without risk to health of teachers and students.

Free Education Grant shall be used solely for the purpose of facilitating learning and teaching in the school. (Financial Management in School section 5.4.2)

Under the Ministry's guideline on use of FEG, 20% of the total grant is allocated for Building and Compound maintenance. However, the audit inspection of a sample of schools revealed that schools were in a very poor condition and not conducive for effective teaching and learning.

#### **School Registration Number 1849**

The school (registration number: 1849) received a total FEG of \$249,333 for the year 2014. Out of the total FEG the school was allocated \$49,866.60 or 20% for Building and Compound maintenance.

Despite \$49,866.60 allocated by the Ministry for Building Maintenance no such works were carried out by the school during 2014 as \$75,000 or 30.08 % of the grant fund was transferred to the University which is managed by the school (registration number 1849) management.

Hence the condition of the school building was in a very poor state and required urgent renovations.

#### **School Registration Number 1861**

The school (registration number 1861) received a total of \$427,108 as FEG for the year 2014. The school was allocated \$85,421.60 or 20% of FEG for Building and Compound maintenance.

However the school did not carry out any building renovation works in 2014 despite the building requiring urgent renovation works. This was due to the school management transferring \$230,000 or 53.9% of the total FEG to the University under its management.

### **School Registration Number 9557**

The school (registration number 9557) received a total of \$356,998 as FEG from the Ministry for the year 2014. The Ministry allocated \$71,399.60 or 20% for Building and Compound maintenance.

The school used \$9,000 out of \$71,399.60 allocated for Building and Compound maintenance for the upgrading and maintenance of the school principal's quarters.

Even though funds were allocated and available for building maintenance the school management did not carry out any renovation and maintenance works for the school in 2014. The school building was in a poor state and urgent renovation works were needed.

The finding shows that Divisional Education officers did not properly monitor the use of FEG by schools. Hence the 20% of the total FEG allocated for Building and Compound maintenance were misused by schools.

The committee was informed that School infrastructure has been upgraded and we will continue to affect them gradually into our annual budgetary plans for the future. We estimated that Fiji needs to overhaul and upgrade its entire infrastructure fairly across the whole nation, and we will be looking at the commitment of \$90 million. What we have come up with is to, at least, budget for every annual budget; submit a budget of \$30 million to address infrastructure redress across the whole nation

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Conduct a thorough investigation on all schools for use of 20% of the FEG for building maintenance and take appropriate actions; and
- Take appropriate disciplinary action against Divisional Education Officers for not monitoring the FEG.

### **23.20 Payment of Management Fees**

Free Education Grant shall be used solely for the purpose of facilitating learning and teaching in the school. (Financial Management in Schools section 5.4.2)

The Ministry of Education disbursed FEG of \$357,036 to School (registration number: 2337) and \$191,737 to School (registration number: 2348) in 2014. The

FEG given to both schools were managed and administered by a religious organisation.

The audit noted that the religious organisation was paid management fees totaling \$35,000 by both Schools for managing the operation of the schools.

The 'School Financial Management Guideline' does not stipulate payment of management fees by schools to organization managing the operations of schools. Hence the payment of management fees to the religious organisation was unauthorized.

The finding shows that Divisional Education Officers did not properly monitor the use of FEG by schools. Therefore FEG was not properly used by the school management.

The committee was informed that the school reimbursed all management fees and the matter has also been reported to FICAC.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Take appropriate action to ensure management fees charged by the school management is refunded to the schools; and
- Take appropriate disciplinary action against Divisional Education Officers for not monitoring the FEG.

### **23.21 Variance in Cash Book and FEG Account for School Registration Number 9787**

Schools given FEG must adhere to the regulations set forth by Ministry of Education. The Cash/Financial Log Book details the total tuition allocation for the schools. It also includes the total amount committed and the reducing balance of every transaction. (Financial Management in Schools section 5.5.1)

The schools at the end of each month must balance and reconcile the cash/financial log book with the FEG bank account.

The audit noted that School (registration number: 9787) had an un-reconciled variance of \$34,255.60 between the FEG cash book and the bank account balance as at 31/10/2014. Refer to Table 23.18 for details.

**Table 23.18: Variances in Cash Book and Free Education Grant Bank Statement Balance**

| Balance as per<br>Cash Book<br>(\$) | Balance as per<br>Bank Account<br>(\$) | Variance<br>(\$) |
|-------------------------------------|--|------------------|
| 98,442.60                           | 64,187                                 | 34,255.60        |

This indicates that the school bursar failed to carry out monthly reconciliations and the variances between the FEG cash book and the bank account were not identified and adjusted. As a result audit was not able to ascertain whether all payments were properly recorded in the FEG cash book.

Failure to prepare monthly reconciliations may result in schools not being able to detect misappropriation of FEG.

The committee was informed that all schools are required to update their financial transaction in the FMIS which is monitored now by the Primary and Secondary Sections respectively.

The Committee agrees with the Auditor General's recommendations that the School Principal should ensure that:

- the variance is investigated and appropriate action taken;
- FEG account bank balance is reconciled with the cash book on a monthly basis in future;
- Payments from the FEG are posted to the cash book on a timely basis; and
- Appropriate action is taken against Officers responsible for not reconciling the Cash book and the FEG Bank statement balance.

### **23.22 Poor Record Keeping for Utilization of Free Education Grant**

Schools given Free Education Grants must adhere to the regulations set forth by Ministry of Education. The cash/financial log book and the six allocations files shall be kept at the school and made available to Ministry of Education Official for scrutiny during their visits. (Financial Management in Schools)

The audit noted that the schools did not properly maintain financial records pertaining to the utilization of the FEG. Out of the 18 schools visited between Suva and Nausori District, 4 of these schools did not record expenses incurred from FEG into 6 categories as required by the Ministry.

In addition 7 schools which received FEG totaling \$2,445,472 did not properly maintain the supporting documents relating to the FEG. Refer to Table 23.19 below for examples of poor record keeping.

**Table 23.19: Details of Schools Not Maintaining Poor Records**

| School Registration Number | Total Grant Received (\$) | Anomalies Noted   |
|----------------------------|---------------------------|---|
| 1826                       | 697,560                   | <ul style="list-style-type: none"> <li>• Payment vouchers from May 2014 to December 2014 were not filed.</li> <li>• Payment vouchers for six categories of expenses were not maintained separately.</li> </ul>                    |
| 2337                       | 357,036                   | <ul style="list-style-type: none"> <li>• Payment vouchers for six categories of expenses were not maintained separately.</li> <li>• Supporting documents such as quotations were not attached to the payment vouchers.</li> </ul> |
| 2348                       | 191,737                   | <ul style="list-style-type: none"> <li>• Payment vouchers for six categories of expenses were not maintained separately.</li> <li>• Supporting documents such as quotations were not attached to the payment vouchers.</li> </ul> |

The above finding indicates poor monitoring and supervision of record keeping at schools by the Divisional Education Officers. As a result schools failed to properly maintain records relating to use of FEG.

The committee was informed that the Ministry only monitors the bank's reconciliation for Government Schools on a monthly basis. For the non-government schools, the Ministry receives audited financials on a yearly basis. Now, the Ministry has factored in extra measures into that by strengthening our nine education District Officers to monitor the schools within their district thoroughly on audited financial reports annually.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that Divisional Education Officers visit schools and guide them on proper record keeping relating to the use of FEG; and
- Take appropriate disciplinary action against Divisional Education Officers for not monitoring and supervising schools for proper record keeping relating to FEG.

### **23.23 Tender not Called for Contracts Exceeding \$50,000**

Government finances must be managed lawfully and according to the Education Act and Ministry of Education Regulations and procedures, including audit requirements. (Financial Management in Schools Section 3.0 No 4)

A tender must be called for the procurement of goods, services or works valued at \$50,001 and more. (Finance Circular 2012, Circular No: 9/2012)

The audit noted that the management of school (registration number 2337) did not call for tenders for general exterior painting of the school even though the total cost of painting works exceeded \$50,000. The painting works were completed and the contractor was paid the full contract sum of \$95,000. Refer to the Table 23.20 for the breakdown of payments made.

**Table 23.20: Payments Made to the Contractor**

| Date         | Cheque Number | Particulars         | Amount (\$)   |
|--------------|---------------|---------------------|---------------|
| 10/01/14     | 004788        | Payment for stage 1 | 28,500        |
| 10/01/14     | 004789        | Payment for Stage 2 | 28,500        |
| 04/02/14     | 004824        | Payment for Stage 3 | 28,500        |
| 03/03/14     | 004870        | Retention           | 9,500         |
| <b>Total</b> |               |                     | <b>95,000</b> |

Under the 'School Financial Management Guide' all schools can use 20% of their total FEG for Building and Compound Maintenance. The school (registration number 2337) was given FEG of \$357,036 in 2014. Out of the total FEG the school was eligible to use only \$71,407.20 for Building and Compound Maintenance.

However, the audit noted that the school management utilized \$95,000 or 27% of the FEG for exterior painting of the school. Hence the management utilized \$23,592.80 or 33% excess of the amount authorized by the Ministry for Building and Compound Maintenance. The school management did not obtain approval from the Ministry to use FEG for painting works in excess of the authorized limit.

The finding shows that the School did not follow proper procurement process of the Ministry when awarding the contracts for school improvement works. Hence the contractor may not be the best and most economical supplier. In addition the Divisional Education Officer did not properly monitor the use of FEG by schools. Therefore FEG was not properly used by the school management.

The committee was informed that awareness training had been provided to school Heads and Management, highlighting the procurement processes and, of course, its guidelines. Also, the internal audit team also has an oversight on FEG utilization.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Taking appropriate action to ensure that funds used in excess of authorized limit for Building and Compound maintenance is recovered from the school management;
- Tenders are called for purchase of goods and service costing more than \$50,000 using FEG; and
- Take appropriate disciplinary action against Divisional Education Officers for not monitoring the FEG.

## 23.24 Land Development for the New School Registration Number E7/2395

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur. (Ministry of Education Finance Manual 2013 Part 2)

The Minister of Finance on 02/05/14 granted waiver of the tender proceedings and approved the engagement of Contractor B to undertake Land Development and Upgrading Works for the New School (Registration Number E7/2395). The contract was awarded at a total cost of \$1,300,343.46 (VIP).

As at the date of audit 15/12/14, the Ministry paid \$943,520.24 (VIP) or 72.6% of the contract sum. The payments were made based on the contract agreement signed between the Ministry of Education and Contractor B on 08/04/14.

The audit review of the project noted the following:

- As a pre-requisite to any project construction, it is important to carry out Land Survey to identify the boundaries and obtain the lease agreement for the site of the project.

The audit noted that the Ministry failed to carry out the land survey to identify the boundaries and obtain the lease agreement from iTaukei Lands Trust Board for the proposed site of New School in Tailevu. During the site visit carried out by audit on 15/12/14, it was noted that the Contractor had commenced with the site improvements, ground compaction, and clearing of roadside drains without any approved boundaries and lease agreement.

Carrying out capital construction without proper survey and lease agreement may lead to unnecessary conflicts with the iTaukei Lands Trust Board.

- It is best practice that before starting a major project, the present environment must be assessed without the project and the likely impact of the project on the environment when it is completed. Therefore an Environment Impact Assessment must be made before the commencement of the project.

Discussion with Building Supervisor, Officer revealed that the Environment Impact Assessment has not been carried out. Failure by the Ministry to ensure that an Environment Impact Assessment is carried out prior to the commencement of the project can result in hazards to the surrounding environment.

- A thorough investigation of ground conditions and carrying out soil testing is essential to determine whether a site is suitable for building on, where the best place may be to locate a building and the type and size of foundations that will be required to hold the building.

The audit noted that the Ministry failed to carry out a thorough investigation of ground condition and soil testing before the commencement of the project.

This finding indicates that the Ministry does not have adequate technical expertise in project management and did not perceive the importance to carry out soil testing before commencing with the land filling phase of the project.

Inadequate ground condition bearing or ground instability may result in minor or major building failure through landslides or sinking of the building foundation.

The committee was advised that the issue was resolved by iTLTB as the land survey was carried out by the team from iTLTB.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Surveys are carried out prior to the drawing of plan or implementation of any construction project;
- The survey is carried out and the details are submitted by the Ministry of Lands and Mineral Resources as soon as practical;
- The lease documents are finalized by the iTaukei Lands Trust Board or any other land owning unit before commencement of any capital projects;
- A thorough investigation of the ground conditions and soil testing is carried out to determine the best place to locate the building and the type and size of foundations that will be required to hold the building; and
- A lease agreement is drawn and signed prior to the implementation of any project.

### **23.25 Unaccounted Laptops – One Laptop Per Child (OLPC) Program**

Purchasing, storage and recording of laptops acquired for the OLPC Program should be efficiently managed to ensure that risk of the laptops getting stolen, damaged or obsolete is minimized.

The audit on 15/12/14 carried out physical verification of the laptops purchased under the OLPC program. The laptops were stored and distributed through the Primary Section Storeroom. The physical verification revealed that 60 laptops worth \$27,600 were missing. Refer to Table 23.21 below for details of the items.



**Table 23.21: Movement of Laptops**

| Description                              | Quantity |
|--|----------|
| Number of Laptops Supplied by Daltron    | 2000     |
| Number of Laptops Distributed to schools | (1,735)  |
| Number of Laptops on hand                | (205)    |
| Unaccounted Laptops                      | 60       |

The finding indicates poor administration of the laptops under the OLPC program by responsible officers. The lack of proper administration of laptops increases the risk of loss of public funds through theft.

The committee was informed that the One Laptop per Child (OLPC) Programme; unfortunately, both directors have retired and the Ministry was not able to get any documentation on this.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Investigate the matter and take appropriate disciplinary action against the officer responsible for poor administration of the Laptops; and
- Implement adequate internal control to strength the management of laptops under the OLPC Program.

### **23.26 Laptops not Verified When Received**

According to the contract agreement signed between the Supplier and Ministry of Education, the Authorized Officer of the Ministry or their representative must inspect the 2000 XO - 1.75 Laptops.

Such inspection must take place no later than 7 workings days following the delivery date. The 2000 XO-1.75 laptops were supplied on 23/09/14.

The Supplier will at its option replace or give the Ministry a credit for any 2000 XO-1.75 Laptops which are damaged or are incorrectly delivered if the Ministry advises the Supplier within seven days of receiving the laptops. (Agreement signed between Ministry and the supplier para 10.10 (d))

The audit noted that the Ministry did not inspect the conditions of the 2000 XO-1.75 laptops supplied by the Supplier.

However upon physical verification by the audit on 15/12/2014, it was noted that 15 laptops costing \$6,900 (VIP) were not in working condition and were stored in the storeroom at the Ministry Headquarters, Quality House.

The finding indicates the laxity on the part of the Ministry's officials for not inspecting the laptops when it was supplied. This resulted in loss of \$6,900 of public funds.

The committee noted that both directors have retired, as mentioned earlier, and the Ministry was not able to get any documentation on this item.

The Committee concurs with the Auditor General's recommendations that the Ministry should investigate this matter and surcharge the officers who were responsible for inspecting the laptops but did not do so.

### 23.27 Audited Accounts Not Submitted By Grant Recipients

The recipient of the Grant Assistance shall prepare an acquittal report. The acquittal report shall provide the following information:

- i. Details of grant money expended and unexpended;
- ii. Grant objectives and targets achieved; and
- iii. Financial statement (audited if practicable) for grants of \$20,000 or more. (Ministry of Education Finance Manual 2013 Section 3.5.1)

The Ministry provides grants to Fiji Museum, National Trust of Fiji and Fiji Arts Council. The grants provided to each of these agencies are in excess of \$20,000. The audit noted that these agencies have not been submitting their audited financial statements to the Ministry of Education for the past few years.

The audit also noted that the Ministry continued to provide annual operating grants despite the agencies not submitting the audited financial statements. Refer to Table 23.22 for details of grant paid as at 31 December 2014.

**Table 23.22: Grants Disbursed**

| Agency            | Last Audited Accounts | Figures not Provided | Grants Provided Despite Accounts Unaudited |            |            |         |         | Total        |
|-------------------|-----------------------|----------------------|--|------------|------------|---------|---------|--------------|
|                   |                       |                      | 2010                                       | 2011       | 2012       | 2013    | 2014    |              |
| National Trust    | 2011                  | —                    | —  | —          | 250,000.00 | 250,000 | 250,000 | 750,000.00   |
| Fiji Museum       | 2007                  | 2008-2009            | 363,097.50                                 | 304,438.00 | 227,420.00 | 300,000 | 280,000 | 1,474,955.50 |
| Fiji Arts Council | 2003                  | 2004-2009            | 311,432.30                                 | 229,506.14 | 380,304.30 | 176,729 | 150,000 | 1,247,971.74 |

The committee was informed that the Ministry is still in the process of getting things sorted, and yet to receive the audited accounts for the grant recipients

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that all grant recipients comply with the terms and conditions of the grant agreement;
- Ensure that all grant recipients receiving more than \$20,000 grant submit audited annual accounts to the Ministry; and

- Take appropriate action against grant recipients who have not submitted the audited annual accounts.

### 23.28 Unbudgeted Expenditure

Agencies should prepare their budget submissions in accordance with the Finance Circulars issued by the Permanent Secretary of Finance from time to time. Agencies should ensure that their budget submissions:

- a) clearly linked to the policy objective in the National Development Plans;
- b) separately show operating and capital expenditures; and
- c) clearly specify the projects and expenditure to be aid funded. (Finance Instructions 2010 Section 6 [3])

The Ministry did not have any allocation as 'Other Setup and Implementation' (allocation number 21101-91012-070299) in its 2014 budget.

However the audit noted that the Permanent Secretary for Education vired funds totaling \$2,130,426 from different allocations on three occasions into 'Other Setup and Implementation' allocation. Details of the virement are shown in Table 23.23 below.

**Table 23.23: Details of Virement from Various Allocations**

| Date Approved | Virement Number | Amount (\$)      |
|---------------|-----------------|------------------|
| 07/05/14      | DV 2106         | 397,426          |
| 05/08/14      | DV 2114         | 533,000          |
| 22/08/14      | DV 2117         | 1,200,000        |
| <b>Total</b>  |                 | <b>2,130,426</b> |

The audit further noted that funds totaling \$1,855,634.11 or 87.1% from 'Other Setup and Implementation' were used by the Ministry to procure goods, services or works that were not budgeted for. The payments were approved by the Permanent Secretary for Education.

Refer to Table 23.24 for payments made from the 'Other Setup and Implementation' allocation.

**Table 23.24: Details of Expenditure Incurred**

| Date     | Payment Voucher Number | Particulars  | Amount (\$) |
|----------|------------------------|--|-------------|
| 26/09/14 | 324694                 | Payment of consultancy and training charges to Heidelberg Graphic Ltd  | 120,799.00  |
| 26/09/14 | 324264                 | Purchase of 40 S5 Samsung phone  | 49,960.00   |
| 04/09/14 | 322790                 | Supply of Diesel and Premix for emergency cutting water for Lau Schools  | 27,067.25   |
| 29/10/14 | 327592                 | Consultancy charges to M&S Consultants - Provision of REACT software, Support and Maintenance services 01/01-15-31/12/15 | 25,927.65   |
| 20/05/14 | 310948                 | Payment of photocopier-Lanier MP 6000  | 21,850.00   |
| 06/10/14 | 325636                 | MOE 50% payment for Tuvalu students at FNU   | 21,220.00   |
| 05/08/14 | 319296                 | MOE 50% payment for Tuvalu students at FNU   | 19,774.00   |
| 03/06/14 | 312919                 | MOE 50% payment for Tuvalu students at FNU   | 18,729.32   |
| 16/09/14 | 324351                 | Payment of 130 padded stools for Vunisea Secondary School  | 16,792.00   |
| 11/07/14 | 318665                 | Installation of new AC at ERC (Education Resource Centre) government printing building in Vatuwaqa                       | 16,260.00   |

The finding indicates that proper procedures were not followed by the Ministry to seek approval for use of public funds. Hence the funds vired to allocation 'Other Setup and Implementation' was not approved by the Parliament.

The committee was informed that proper virements were done to transfer funds approved from the MOE before it could use any of those extra funds. The funds were utilised accordingly once virement was approved

The Committee agrees with the Auditor General's recommendations that:

- The Ministry of Economy should investigate this matter and take appropriate action.
- The Permanent Secretary for Education should:
  - 1) cease the practice of transferring funds from other allocations into 'Other Setup and Implementation' allocation; and
  - 2) Cease the use of funds from the 'Other Setup and Implementation' allocation.

## **Section 24: Ministry of Health.**

### **Role and Responsibilities**

The Ministry of Health's goal is to provide a health care system that is accessible, affordable, responsive, equitable and of high quality to the people of Fiji. These roles and responsibilities advocate the provision of the 2013 Constitution under Section 38 - Rights to Health that states:

- (1) The State must take reasonable measures within its available resources to achieve the progressive realization of the right of every person to health, and to the conditions and facilities necessary to good health, and to health care services, including reproductive health care.
- (2) A person must not be denied emergency medical treatment.
- (3) In applying any right under this section, if the States claims that it does not have the resources to implement the right, it is the responsibility of the State to show that the resources are not available.

In undertaking these roles and responsibilities, the Ministry of Health will address its strategic goals of provision of health services, protection of health, promotion of health, productivity in health and human resources in health to achieve the major outcomes summarized. To achieve these goals, the Ministry will develop from resources available a comprehensive and encapsulating health delivery system encompassing curative health services (primary, secondary, tertiary), disease prevention and Wellness promotion.

Improvements to the delivery of health services will continue and be pursued by the Ministry in partnership with key stakeholders, the private sector and development partners. The Ministry will maintain capacity building and continue training personnel and address staff shortages in critical areas in health institutions, together with the maintenance and upgrading of health facilities around the country especially in rural areas.

## **PART A: FINANCIAL STATEMENTS**

### **24.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Health resulted in the issue of a qualified audit report. The bases for the qualifications are as follows:

- The Trust Fund account Statement of Receipts and Payments for the year ending 31/12/13 had a debit balance of \$149,211. However the Trust Fund account Statement of Receipts and Payments for the year ending 31/12/14 had opening credit balance of \$746,781. The opening balance for the Trust

Fund account Statement of Receipts and Payments was incorrectly stated. The audit was not able to ascertain the correctness of the main Trust Fund account balance at balance date.

- The Ministry recorded total receipts of \$338,299 in the Trust Fund Statement of Receipts and Payments. The total receipt in the Trust Fund FMIS general ledger (9-22101-22002-895048) was \$195,485. The audit was not able to ascertain the correctness of the main Trust Fund account balance at balance date.
- The Ministry's bank reconciliation for the Trust Fund account for December 2014 did not reconcile to the FMIS general ledger. The main Trust Fund account had a closing debit balance of \$98,155 (overdrawn) in the FMIS general ledger while the bank reconciliation balance as at 31/12/14 had a debit balance of \$32,069 resulting in a variance of \$130,224.

In addition the Trust Fund bank account reconciliation for December 2014 included an unsubstantiated amount of \$224,822 to reconcile Trust Fund bank account balance with Trust Fund manual cash book balance of \$32,069. The audit was not able to ascertain the correctness of the main Trust Fund account balance at balance date.

- The Ministry did not maintain a separate Trust Fund account to record the retention sums deducted from progress payments for capital works. The Trust Fund Statement of Receipts and Payments for retention sum held were not included in the Special Purpose Financial Statements as required under Section 25 of the Financial Management Act 2004.
- Included in TMA Balance sheet is VAT receivable of \$134,794. The Bulk Purchase Scheme does not pay VAT on purchases of medical supplies from Fiji Pharmaceutical and Biomedical Services for resale at VAT inclusive price. The VAT receivable of \$134,794 was incorrectly stated in the TMA Balance Sheet.
- The Ministry of Finance posted \$81,972 into Account Receivable (debit entry) and TMA ACC Surplus (credit entry) accounts. No detail of the adjustment was provided by the Ministry. The audit was not able to ascertain the correctness of the Accounts Receivable and TMA ACC Surplus balances of \$98,345 and \$1,129,675 respectively.

## **24.2 Statement of Receipts and Expenditure**

The Ministry collected revenue amounting to \$6,169,400 and incurred a total expenditure of \$213,679,198 in 2014. The Ministry's revenue increased by

\$362,652 or 6.2% in 2014 compared to 2013 due increase in revenue from hospital fees, fumigation & quarantine and license fees.

The Operating Expenditure increased by \$29,700,069 or 19.9% in 2014 compared to 2013 due to an increase in the number of nurses, doctors and extended opening hours in providing the health services to the general public.

The Capital Expenditure increased by \$9,859,886 or 67.8% in 2014 compared to 2013 due to the nature of projects implemented which needed much preparatory work and liaison with various stakeholders and supply, installation and commissioning of Radiology equipment.

### **24.3 Appropriation Statement**

The Ministry of Health incurred expenditures totaling \$213,679,197 in 2014 against the budget of \$222,476,539 resulting in savings of \$8,797,342.

### **24.4 Statement of Losses**

There was no loss of fixed asset recorded for the year 2014. However, items worth \$2,785,476 were written off, following the Ministry's Board of survey conducted in 2014. Expired drug as at 31/12/14 was valued at \$745,411.

The Board of survey for the year ending 31 December 2014 was conducted by the Ministry.

## **PART B: AUDIT FINDINGS**

### **24.5 Variances in FNPF Figures**

Every employer shall pay to the Fund in respect of each of his employees, in every month during which such employee by him and in the month following the termination of such employment, a contribution calculated upon the amount of wages payable to such employee by such employer for the preceding month at the appropriate rates. (Chapter 219 – Fiji National Provident Fund – Section 13[1])

The current rate of contribution is 16 cents on each dollar earned, with the employer and employee each contributing 8 cents.

A variance of \$442,790.37 was noted between the Ministry's gross pay on which FNPF was paid and the audit calculations of gross pay subject to FNPF.

The audit further noted that the Ministry did not prepare FNPF reconciliations for the year 2014.

The findings indicate lack of monitoring and supervision by the Senior Officers of the Ministry. As a result the audit could not ascertain the accuracy and correctness of the FNPF payments made by the Ministry.

The committee was informed that the Ministry has put up with the FNPF team and we have identified that there were issues on the members' funds placed in the Suspense Account at FNPF because there were some name issues on the system, so the Ministry has met up with FNPF and we have rectified that as well. As we speak, the members have got their funds allocated to their accounts.

The Committee agrees with the Auditor General's recommendations that:

The Ministry should:

- Ensure that proper FNPF reconciliation is carried out on a monthly basis to identify variances; and
- Take appropriate disciplinary for not reconciling FNPF payment.

## **24.6 Drawings Account**

A new format of the Drawings account reconciliation was introduced by the Ministry of Finance effective from 1/1/14 through the Finance Circular Number 2/2014. The Ministry of Health has two Drawings Accounts, one at Headquarters and the other at the Western Division in Lautoka.

### **24.6.1 Head Quarters**

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instructions 2010 – Section 32 [6])

The Permanent Secretary must appoint a Board of Survey to conduct a physical stock take of all cash on hand and other stocks held in safes at least once a year. (Finance Instructions 2010 – Section 31 [5])

The audit noted the following anomalies in the Ministry's Drawings account:

- The Ministry did not carry out Board of Survey for the unrepresented cheques as at 31/12/14. As a result the audit could not place reliance on unrepresented cheques as at 31/12/14.
- The Ministry of Finance approved write-offs to various allocations for whole of government for the year 2014. The Ministry of Finance posted \$3,097,903.62 of these write offs into Ministry of Health Drawings account balance. As a result the Drawings account balance was overstated.



- The audit could not substantiate the increase in the Drawings account balance as details pertaining to the increase was not provided for audit verification.
- The Ministry did not use the previous month's closing balance as the opening balance for months of June and November Drawings account reconciliations. The audit could not ascertain the correctness of the Drawings account reconciliation as at 31/12/14. Refer to Table 24.4 for details.

**Table 24.4: Details of Variance in Closing and Opening Balances**

| Month    | Closing Balance As Per Reconciliation (\$) | Opening Balance As Per Reconciliation (\$) | Variance (\$) |
|----------|--|--|---------------|
| May      | 8,728,644.51                               |  |               |
| June     |  | 8,702,991.41                               | 25,653.10     |
| October  | 11,455,430.95                              |  |               |
| November |  | 11,481,084.05                              | 25,653.10     |

The Ministry's Headquarters Drawings account did not reconcile with the FMIS General Ledger balance for the year ended 31/12/14. The Ministry's Drawings Account reconciliation for December 2014 had a balance of \$11,160,552.92 while the FMIS general ledger had a balance of \$4,545,309.69. A variance of \$6,615,243.23 was noted between the Ministry's reconciliation and the FMIS general ledger. Refer to Table 24.5 for details.

**Table 24.5: Variance in Closing Balance in Drawings Account**

| Account Description | Balance As Per Drawings Account Reconciliation (\$) | Balance As Per FMIS (\$) | Variance (\$) |
|---------------------|---|--------------------------|---------------|
| Drawings Account    | 11,160,552.92                                       | 4,545,309.69             | 6,615,243.23  |

The findings indicate lack of supervision and monitoring by Senior Officers and lack of coordination between the Ministry and Ministry of Finance. As a result the audit could not ascertain the accuracy and correctness of the Drawings account reconciliation.

The committee was informed that the Ministry of Economy through the FMIS team and we have addressed the issues on the Drawings Account especially when it is talking about the unrepresented cheque list which has figures reflecting from the EFT.

The Government brought in the EFT as a mode of payment processing which is basically to do away with unrepresented cheques being reflected during the year. The EFT purpose is so that the funds are going directly into the members' account.

We have had some issues because the bank system was not so tuned up with the EFT, with FMIS and they were reflecting lump sum figures, so that was one

of the issues where it was all thrown to show as unrepresented but we have again met with the FMIS team and MOE and Government has come up with a new format of doing the bank reconciliation for the drawings account to address these issues.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that:

- Board of Survey of the unrepresented cheques is carried out at the end of the year;
- Adequate supervision and monitoring is provided by Senior Officers to their subordinates;
- The correct opening balances are used to reconcile the Drawings account;
- It coordinates with the Ministry of Finance to reconcile the Drawings account; and
- Appropriate disciplinary action is taken against those responsible for not performing their task properly.

#### 24.6.2 Western Division

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instructions 2010 – Section 32 [6]) The Permanent Secretary must appoint a Board of Survey to conduct a physical stock take of all cash on hand and other stocks held in safes at least once a year. (Finance Instructions 2010 – Section 31 [5])

The audit noted the following anomalies in the Drawings account:–

- The Ministry did not carry out Board of Survey for the unrepresented cheques as at 31/12/14. As a result the audit could not place reliance on unrepresented cheques as at 31/12/14.
- The closing balance of the Drawings account reconciliation for the month of August was not carried forward as the opening balance for the month of September. As a result audit could not ascertain the correctness of the Drawing account reconciliation as at 31/12/14. Refer to Table 24.6 for details.

**Table 24.6: Details of Variance in Closing and Opening Balances**

| Month     | Closing Balance<br>As Per<br>Reconciliation<br>(\$) | Opening Balance<br>As Per<br>Reconciliation<br>(\$) | Variance<br>(\$) |
|-----------|---|---|------------------|
| August    | 2,816,565.10  |   |                  |
| September |   | 3,204,790.89  | 388,225.79       |

The Ministry's Drawing account reconciliation as at 31/12/14 for Western Division was not reconciled with FMIS general ledger. A variance of \$2,272,092.96 existed

between Drawing account reconciliation and the FMIS general ledger balance as at 31/12/14. Refer to Table 24.7 for details.

**Table 24.7: Variance in Closing Balance in Drawings Account**

| Description      | Balance As Per Drawings Account Reconciliation (\$) | Balance As Per FMIS (\$) | Variance (\$) |
|------------------|---|--------------------------|---------------|
| Drawings Account | 2,572,576.00  | 300,483.04               | 2,272,092.96  |

The findings indicate lack of supervision and monitoring by Senior Officers and lack of coordination between the Ministry and Ministry of Finance. As a result the audit could not ascertain the accuracy and correctness of the Drawings account reconciliation.

The committee was further informed that the Ministry is liaising with the banks as well to work on their system as to how these issues could be resolved from their end. The committee was advised that this is not only an issue with the Ministry of Health, but it is an issue with all the other ministries and departments.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Board of Survey of the unrepresented cheques is carried out at the end of the year;
- Adequate supervision and monitoring is provided by the Senior Officers to their subordinates;
- The correct opening balances are used to reconcile the Drawings account;
- It coordinates with the Ministry of Finance and reconcile the Drawings account; and
- Appropriate disciplinary action is taken against those responsible for not performing their task properly.

#### **24.7 Unpresented Cheque List**

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instruction 2010 – Section 32 [6])

Electronic funds transfer (EFT) is the electronic exchange, transfer of money from one account to another, either within a single financial institution or across multiple institutions, through computer-based systems.

EFT's numbers are automatically generated in the FMIS general ledger for individual payments. The processing for the EFT's is done in batches by the Bank.

The audit noted that the Ministry of Finance while carrying out the bank reconciliations could not map the batch postings in the bank statement to the EFT numbers generated in the FMIS general ledger. As a result, the unrepresented cheques for the Ministry as at 31/12/14 were inclusive of the EFT.

The audit further noted that some of the EFT amounts included in the Drawings account reconciliation as at 31/12/14 were for 2012. Refer to Table 24.8 for details.

**Table 24.8: Details of the Total Unrepresented Cheques for Ministry of Health Headquarters**

| Division     | Total Unrepresented Cheque (\$) | EFT (\$)     | Percentage |
|--------------|---------------------------------|--------------|------------|
| Headquarters | 11,160,552.92                   | 8,325,233.49 | 75         |

Hence, the Drawings account reconciliation does not reflect the correct amount of the unrepresented cheques listing at balance date.

The findings indicate improper reconciliations and lack of monitoring of the Drawings accounts. As a result the unrepresented cheques listing was overstated at balance date by \$8,325,233.49.

The committee was informed that the Government brought in the EFT as a mode of payment processing which is basically to do away with unrepresented cheques being reflected during the year. The EFT purpose is so that the funds are going directly into the members' account.

The Ministry have had some issues because the bank system was not so tuned up with the EFT, with FMIS and they were reflecting lump sum figures, so that was one of the issues where it was all thrown to show as unrepresented but we have again met with the FMIS team and Ministry of Economy and Government has come up with a new format of doing the bank reconciliation for the drawings account to address these issues.

The Committee concurs with the Auditor General's recommendations that the Ministry of Health should liaise with Ministry of Economy to request the banks to post EFT individually in the bank statements.

## 24.8 VAT Reconciliation

Subject to the provisions of this Decree, the tax shall be charged in accordance with the provisions of this Decree at the rate of fifteen percent on the supply (but not including an exempt supply) in Fiji of goods and services on or after the 1<sup>st</sup> day of July 1992, by a registered person in the course or furtherance of a taxable

activity carried on by that person, by reference to the value of that supply. (Value Added Tax Decree 1991 revised to 4th March 2011 – Section 15[1])

Output VAT is payable to the Commissioner of Inland Revenue for the supply of all goods and services with the exception of zero rated and exempted supplies. Payments effected by government departments for goods and services are thus subjected to VAT. (Finance Circular No 9/95)

The Ministry prepared VAT reconciliations for 2014 however it was not consistent with audit format. The review of VAT returns and total expenses revealed a variance of \$2,064,555 between the taxable supplies as per VAT Return and the total income/expenditure as per Statement of Receipts and Expenditure. Refer to Table 24.9 for details.

**Table 24.9: Un-Reconciled Variance in VAT Return**

| Details   | Amount (\$) |
|---|-------------|
| Total Expenditure as per Expenditure Statement                | 213,679,198 |
| Less: Expenditure not subject to VAT – SEG 1, 2, 6, 10 and 13 | 129,660,078 |
| Total Expenditure/income subject to VAT                       | 84,019,120  |
| Less: Total Taxable Supplies as per VAT Returns               | 81,954,565  |
| Un – reconcile Variance                                       | 2,064,555   |

In addition a variance of \$6,948,519.14 existed between the VAT paid to FRCA for the year 2014 and the balance disclosed in the FMIS general ledger. Refer to Table 24.10 for details.

**Table 24.10: Variance in VAT Paid Amount in FMIS**

| Details  | Amount (\$)         |
|--|---------------------|
| VAT payments (VAT payments to FRCA and VAT Input) as per General Ledger (SEG 13) | 10,407,715.16       |
| VAT payments (VAT payments to FRCA and VAT Input) as per VAT Returns for 2014    | 3,459,196.02        |
| <b>Un-reconciled variance</b>  | <b>6,948,519.14</b> |

No explanation was provided by the Ministry for the variance.

The non-reconciliation of VAT and poor monitoring by the Ministry has resulted in the variance highlighted above. The Ministry may be paying incorrect VAT to FRCA.

As a result the audit could not ascertain the accuracy of VAT payments made to FRCS.

The committee was informed that the Ministry has noted the issue raised by the Auditor-General and has been liaising with the Ministry of Economy and FMIS on the way forward for the VAT Reconciliations

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that VAT paid to FRCA is reconciled on a monthly basis;
- Take necessary steps to identify the error and reconcile the records to avoid such variances in future;
- Ensure supervisory checks on the preparation of VAT Returns is improved to ensure that balances reflected in the VAT Returns reconcile with the General Ledger; and
- Ensure that appropriate disciplinary action is taken against those responsible for not performing their task.

## 24.9 Over Expenditure

Each year, the Appropriation Act and Budget Estimates set out details of the appropriations that Cabinet approves for spending by each agency. No officer may incur expenditure, which results in the agency's appropriation being exceeded without the authorization of the Ministry of Finance, pending approval by Cabinet. (Finance Instructions 2010 – Section 7)

The audit noted that the Ministry over spent the funds allocated for Established Staff, Government Wage Earners and Purchase of Goods and Services. Refer to Table 24.11 for details.

**Table 24.11: Over Expenditures**

| Description             | Revised Budget (\$) | Actual (\$)    | Over Expenditure (\$) |
|-------------------------|---------------------|----------------|-----------------------|
| Established Staff       | 98,745,768.00       | 103,781,190.31 | 5,035,422.31          |
| Government Wage Earners | 13,564,057.00       | 14,300,628.73  | 736,571.73            |
| Purchase of Goods       | 35,185,769.00       | 35,265,801.03  | 80,032.03             |
| Total Over Expenditure  | 147,495,594.00      | 153,347,620.07 | 5,852,026.07          |

The over expenditure was due to recruitment of additional medical personnel and extended opening hours of certain health centres in 2014. The Ministry utilized funds from VAT allocation to meet the over expenditure.

The committee was informed that the Ministry encountered the over-expenditure basically in SEGs 1 and 2 which is to do with the payment of salaries. The main area of over-expenditure was especially on overtime. Unfortunately, the Ministry had vacancies due to which there was overtimes incurred and the Ministry

needed to pay the officers for the overtime carried out, which basically caused the over-expenditure.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that additional funding is sought from the Ministry of Finance to meet the over expenditures.

#### **24.10 Unauthorized Journal Voucher**

Only the Principal Accounts Officer or Senior Accounts Officer Ledgers shall approve journal adjustments. (Ministry of Health Finance Manual 2014, Section 16.1.2)

Journal vouchers must be numbered in sequential order. Supporting documents shall be attached to the voucher (Ministry of Health Finance Manual 2014, Section 16.1.3). Once the journal voucher has been approved, it shall be posted into the appropriate ledger and the general ledger system (Ministry of Health Finance Manual 2014, Section 16.1.5).

The audit noted several instances where the journal vouchers were posted in the FMIS general ledger without the approval of Principal Accounts Officer or Senior Accounts Officer.

The findings indicate lack of monitoring by the Principal Accounts Officer or Senior Accounts Officer on the processing of journal vouchers. Hence there is a high risk of fraudulent or incorrect journal entries passed and processed into the FMIS general ledger.

The committee was informed that the Ministry's Executive Management has instructed the team in Accounts that no one else apart from the authorized officers to be authorizing the necessary journal vouchers.

The Committee agrees with the Auditor General's recommendations that the Permanent Secretary should investigate and take appropriate disciplinary action against those responsible for not controlling and monitoring the processing of journals.

#### **24.11 Anomalies in Operating Trust Fund Account**

Operating Trust Fund account consists of other moneys that were recorded as trust such as salary deductions payable to other entities, insurance premium deductions from employees, Fiji National Provident Fund deductions from employees. These other moneys were recorded in the Operating Trust Fund account and by convention should always have credit balances. Thus, the Trust Fund accounts should not at any time to be overdrawn.

The following anomalies were noted:

- Ministry did not reconcile the Operating Trust Fund account for the months of June and July.
- Ministry's Operating Trust Fund account was overdrawn by \$781.60 as at 31/12/14. Refer to Table 24.13 for details.

**Table 24.13: Overdrawn Operating Trust Fund Account**

| Account Number       | Description                    | Amount (\$)   |
|----------------------|--------------------------------|---------------|
| 1-22101-22999-861101 | 202 PD OPR Current Year        | 363.70        |
| 1-22101-22999-861915 | 400 PD Fines & Treasury        | 45.00         |
| 1-22101-22999-861926 | PD - Vinod Patel               | 170.90        |
| 1-22101-22999-861927 | PD - Fijian Holding Unit Trust | 202.00        |
| <b>Total</b>         |                                | <b>781.60</b> |

The closing balance of the Ministry's Operating Trust Fund account reconciliation and the FMIS general ledger balance had a variance of \$111.47. Refer to Table 24.14 for details.

**Table 24.14: Variance in Closing Balance of Operating Trust Fund Account**

| Description   | Balance As Per Operating Trust Account Reconciliation (\$) | Balance As Per FMIS (\$) | Variance (\$) |
|---------------|--|--------------------------|---------------|
| Trust Account | 1,976,038.47   | 1,975,927.00             | 111.47        |

The overdrawn Operating Trust Fund accounts may arise from payments to the organisations for which deductions were not made.

The committee was advised that this issue has not been resolved. The Ministry has reconciled its Trust Accounts with FMIS General Ledger and that is going to be reflected in the 2016 Accounts

The Committee agrees with the Auditor General's recommendations that the Ministry should continuously ensure that the Operating Trust Fund account is reconciled on a monthly basis.

#### **24.12 Trust Fund Account Not Maintained for Retention Sum**

The Ministry should maintain a Trust Fund account to deposit all retention sums deducted from the progress payments made to the Contractors where applicable.

The receipts and payments of Trust money must be recorded in a separate cashbook or set of ledger accounts. Each month, the Trust Fund account must be



balanced and reconciled with the Trust Fund bank account. Any variance identified should be investigated and resolved promptly.

The Ministry was allocated \$26,728,112 in its 2014 budget for capital works. Out of the total amount allocated the Ministry utilized \$15,729,166 for capitals works undertaken in 2014.

The audit noted that the Ministry did not maintain a Trust Fund bank account to deposit retention sums deducted from progress payments made to the Contractors for capital works.

Due to management's negligence a Trust Fund account was not maintained by the Ministry to record the amount of retention sum held. Failure to maintain a Trust Fund bank account does not ensure availability of funds when defect liability period ends and retention payment falls due.

The committee was informed that the Ministry has liaised with the Ministry of Economy then and was advised to put the retention sum in the Trust Account with FPO (Fiji Procurement Office). However, the major projects for the Ministry goes on for over a period of time (two to three years), so it is really hard to really ascertain a specific figure of retention sum. Even now, the Ministry is liaising with the Ministry of Economy, CIU (Construction and Implementation) Unit as to how best the Ministry can really tackle this and put a retention sum into a Trust Account, so right now there is some discussion on this.

The Committee agrees with the Auditor General's recommendations that the Ministry should maintain a Trust Fund bank account to deposit all the retention sums deducted from progress payments to Contractor's.

#### **24.13 Trust Fund Account Not in the FMIS General Ledger**

The receipts and payments of Trust money must be recorded in a separate cashbook or set of ledger accounts. (Finance Instruction 2010 Section 58[2]) Each month the Trust account must be balanced and reconciled with Trust bank account. The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer. (Finance Instruction 2010 Section 58[3]) All payments must be immediately recorded in the Financial Management Information System. (Financial Instruction 2010 Section 15)

The Ministry maintains a total of four different Trust accounts and all the Trust funds have separate bank accounts and are reconciled at year end. Refer to Table 24.15 for details of the Trust accounts held by the Ministry.

**Table 24.15: Details of Trust Account**

| Account Name                          | Balance As At<br>31/12/14<br>(\$) |
|---------------------------------------|-----------------------------------|
| Operating Trust Fund                  | 1,976,038.47                      |
| CWM Hospital – Cardiac Force          | 12,025.11                         |
| Fiji Children Overseas Treatment Fund | 194,700.64                        |
| CWM Hospital Staff Fund               | 22,792.23                         |
| <b>Total</b>                          | <b>2,205,556.45</b>               |

The audit noted that three out of the four Trust Fund accounts, namely CWM Hospital – Cardiac Force, Fiji Children Overseas Treatment Fund and CWM Hospital Staff Fund with total credit balance of \$229,517.98 were not recorded in FMIS general ledger maintained by the Ministry of Finance.

The Ministry of Health did not write to Ministry of Finance to ensure that all Trust Fund accounts are recorded in the FMIS general ledger.

Due to laxity on the part of the Ministry's Senior Officer's the Trust Fund accounts were not recorded in the FMIS general ledger. As a result the Ministry of Finance does not have any control over the Trust Fund accounts maintained by the Ministry of Health.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that all the Trust accounts are recorded in the FMIS general ledger

#### **24.14 Trading and Manufacturing Account (TMA)**

The Bulk Purchase Scheme (BPS) is the commercial arm of the Fiji Pharmaceutical and Biomedical Services (FPBS) that is operated under the Trading and Manufacturing Account (TMA). TMA takes care of the supply of drugs and consumables to the wholesalers and retailers locally and also to the region.

On 01/02/11, Cabinet endorsed the Review Report recommendations as follows:

- a) Full cost of operations to be accounted for by BPS;
- b) Review of organisation structure and operations including stock management processes to ensure its effective operations;
- c) BPS to procure and pay for its own stock through the Fiji Pharmaceutical and Biomedical Supplies centre (FPBS) procurement process (consolidated orders); and
- d) BPS to be fully accountable for meeting customer needs both locally and regionally.

The audit noted the following anomalies in TMA.

#### **24.14.1 Anomalies in Accounts Receivable**

Credit sales should be properly controlled to ensure debtors pay on time and to avoid bad debts being expensed. Accounts receivable should have debit balance.

The review of accounts receivable revealed the following anomalies:

- BPS did not carry forward Accounts Receivable of \$23,986.78 which was for credit sale prior to 2009.
- There were no credit sales during 2014. However TMA balance sheet as at 31/12/14 recorded Accounts Receivable balance of \$98,344.77.
- The Ministry of Finance posted \$81,971.61 to correct credit postings made in the FMIS general ledger in the year 2011 in the Ministry's TMA Accounts Receivable balance. As a result the Accounts Receivables balance was overstated.

The finding shows that Accounts receivable balance is incorrectly stated as no debtors exists and Accounts Receivable balance was adjusted by Ministry of Finance.

The Committee agrees with the Auditor General's recommendations that the Ministry of Health should:

- Investigate the Accounts Receivable of \$23,986.78 not included in the TMA Balance Sheet when it was not written off;
- Identify the credit postings that were made in the year 2011 and adjust the Accounts Receivable accordingly; and
- Identify who authorized the journal in the year 2011 and take appropriate disciplinary action.

#### **24.14.2 Incorrect Opening Stock Balance**

A stock take must be undertaken each year to verify the existence and condition of inventories on hand. (Finance Instructions 2010 Section 38)

The BPS does not hold any inventories at any point in time. When orders are placed by customers, BPS purchases the same quantity of inventories and supplies the inventories to the customers.

The audit noted that BPS included an opening stock of \$34,196 in the TMA Trading account for the year ended 31/12/14 when there was no actual closing stock held in the previous year. The Opening stock of \$34,196 was also recorded in the FMIS general ledger in 2014. The BPS did not provide Stock Take Certificates for the Closing Stock amounting to \$34,196.30 (VEP) for the year

2013. The existence of the \$34,196.30 as the Opening Stock for the year 2014 could not be verified.

The finding shows that opening stock amount is incorrectly stated in the TMA Trading account. As a result gross profit transferred to TMA Profit and Loss Statement is understated by the same amount.

The Committee agreed with the Auditor General's recommendations that the BPS should investigate and make an adjustment to ensure opening stock is not included when no stock was held at the end of the previous year

### 24.14.3 Misallocation in TMA FMIS General Ledger

Within 3 days of receiving the monthly general ledger reports from the Ministry of Finance, the Senior Accounts Officer Ledgers shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement. (Ministry of Health Finance Manual 2014 Section 16.3.3)

Any errors or misallocations must be immediately adjusted by way of journal vouchers. (Ministry of Health Finance Manual 2014 Section 16.3.4)

The review of the Ministry's TMA Profit and Loss Statement and the FMIS general ledger posting noted misallocations of expenditures on several occasions by the Ministry. In addition there was no allocation for Rent in the FMIS General Ledger and payment of rent was incorrectly charged to Telecommunications allocation. Refer to Table 24.16 for details.

**Table 24.16: Misallocation of Expenditure**

| Account Name        | FMIS General Ledger (\$) | TMA Profit And Loss Statement (\$) | Variance (\$) |
|---------------------|--------------------------|------------------------------------|---------------|
| Travel and Domestic | 2,347.95                 | 1,108.00                           | 1,239.95      |
| Telecommunications  | 15,134.09                | 785.00                             | 14,349.09     |
| Fuel and Oil        | 64.58                    | ---                                | 64.58         |
| Rent                | (no rent allocation)     | 15,653.00                          | 15,653.00     |

The finding indicates laxity of the officer's responsible for TMA and poor supervision by the Principal Accountant. As a result TMA account FMIS general ledger was not properly maintained.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Provide adequate training to its TMA accounting staff;
- Ensure that TMA account FMIS general ledger is properly maintained; and
- Investigate the poor record keeping of TMA account and take appropriate disciplinary action.

#### 24.14.4 Anomalies in TMA Bank Reconciliation

Reconciliations are the tallying of two sets of transactions to ensure accounts are recorded properly. Reconciliations are carried out on a monthly basis and to be reviewed by the Senior Officer. It helps in identifying discrepancies in the recording of transactions.

As at 31/12/14 the bank reconciliation had a balance of \$512,856 while the FMIS general ledger had balance of \$488,827. A variance of \$24,029 was noted between the bank reconciliation balance and the FMIS general ledger.

The audit further noted that the lodgments totaling \$258.75 were not credited from previous years. Refer to Table 24.17 for details.

**Table 24.17: Details of Lodgment not credited from Previous Years**

| Date         | Receipt Number | Amount (\$)   |
|--------------|----------------|---------------|
| 11/12/08     | 243044         | 36.60         |
| 11/1/10      | 766348         | 25.80         |
| 27/1/12      | 869729         | 196.35        |
| <b>Total</b> |                | <b>258.75</b> |

In the absence of appropriate supervision and proper reconciliations, the Ministry may not be able to detect misappropriation or theft of money.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Identify the un-posted receipts from its cash book and post it in the FMIS general ledger;
- Ensure that monthly reconciliations are properly carried out; and
- Take disciplinary action against officers responsible for preparing bank reconciliation for not performing their duties properly.

#### 24.14.5 VAT Amount Incorrectly Stated

VAT account should be properly reconciled and recorded in the TMA Balance Sheet either as VAT Receivables or VAT Payables.

All medical supplies purchased by the BPS from FPBS were at the VAT Exclusive Price (VEP).

However, the audit noted that the BPS incorrectly applied 15% VAT on the purchases made from FPBS and posted the VAT amount in the FMIS General Ledger. As a result, the VAT Receivable of \$134,794.69 was incorrectly recorded in the FMIS general ledger and TMA Balance Sheet.

In addition the VAT calculations performed by audit noted a VAT payable of \$12,207.

Therefore VAT amount was incorrectly stated in TMA Balance Sheet. As a result the net asset as at 31/12/14 was materially misstated.

The committee was informed that the Ministry of Health has a Bulk Purchase Team which is the TMA Account based at the Fiji Pharmaceutical and Ba Medical Services. Previously, FMIS came in the entire Government in 2005 but for the Ministry of Health, it came on board in 2011, and before that, the Ministry was working on EPICOR system so when the transactions were transferred onto the FMIS system from the old system, that is where we had some discrepancies as far as the mapping and transfer of transactions took place. However, right now, the Ministry has met with the Auditor-General's Office and their assistance with the FMIS team and Ministry of Economy and has rectified those issues mentioned above.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that appropriate disciplinary action is taken against those responsible for not performing their task.

#### **24.15 Refurbishment and Extension of Operating Theatre Complex at CWM Hospital - Contract Number WSC 200/2012**

Government Tender Board awarded the contract number WSC200/2012 to the Contractor on 18/12/12 for total contract sum of \$9,954,295.12 (VIP). The contract sum comprised of \$8,988,269.82 (VIP) for works including obtaining permits, approvals, design works, constructions, renovation, mobilization, installation, commissioning and attendance during defect liability period and \$966,025.30 (VIP) for estimated cost for procurement of specialized equipment.

On 26/9/14, GTB approved variations of \$1,923,543.22 (VIP) which increased the final contract sum to \$11,877,838.34 (VIP). The review of the project files and the contract documents revealed the following anomalies:

- Under the Special Condition to the Contract Agreement, the employer will not withhold retention on the contract sum that relates to the procurement of equipment for the hospital which shall not exceed \$966,025.30 (VIP). The employer shall retain 2.5% on the balance of the contact sum. (Contract Agreement Between Ministry of Health and Pacific Building Solutions Clause 7.2)

The balance of the initial contract sum [excluding variation of \$1,923,520.20 (VIP)] excluding the procurement cost of specialized equipment was \$8,988,269.82 (VIP). The audit noted that the Ministry paid mobilization fees of \$1.5m to the contractor on 28/12/12. However the Ministry did not retain

2.5% or \$37,500 retention sum from the payment of mobilization fees to the Contractor. The finding was highlighted in the Draft Audit Memorandum for the year 2013 however as at 10/12/14, the Ministry did not recover \$37,500 overpaid to the Contractor.

The Ministry did not comply with section 7 of the Special Condition of the Contract Agreement between the Ministry and the Contractor and the audit recommendations.

- The Ministry submitted the Contract Agreement to Solicitor General's Office for review before signing. On 12/12/12 the Solicitor General's Office advised the Ministry to include a schedule on payment in the Contract Agreement. A schedule of payment shows the amount and tentative dates of payments to the Contractor during the contract period.

However the Ministry did not include a Schedule of payment in the Contract Agreement despite the Solicitor General's advice.

- Under the Contract Agreement, the date of practical completion was 4.00pm on 18/12/14.

However the Contractor was not able to complete the project by the expected completion date of 18/12/14. The Contractor submitted several extensions of time to the Asset Management Unit since 13/6/13. As at 17/12/14 the Contractor requested for extensions accumulating to 66 days.

The Ministry did not allow for any extension of time to the Contractor. As at 25/2/15 the Contractor was not able to complete the project.

As per the Contract Agreement the Contractor is required to pay delay damages at the rate of \$100 per day for every day of delay.

However the Ministry did not charge delay damages to the Contractor even though the extension of time was not allowed to the Contractor.

The delay in project completion may result in additional expenses for the Ministry.

The committee was informed that this project has been completed; however, the issue of the retention sum was withheld due to the defects of the new construction. Once this is rectified by the contractor, those retention sums could be released.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Recover the retention sum of \$37,500 not deducted from the mobilization cost from subsequent progress payments;
- Properly plan and review capital projects to avoid variations and delays;
- Charge delay damages for works not completed on time in future; and
- Comply with conditions of the contract at all times.

#### **24.16 Delay in Installation and Commissioning of Operating Theatre Equipment**

The GTB awarded the contract number 3/2014 to the Contractor on 15/4/14 for supply, installation and commissioning of Operating Theatre Equipment for CWM Hospital at a total cost of \$1,506,205.19. The equipment was received by the Ministry on 12/6/14.

The equipment purchased was for the 4 new operating theatres (*these are the Endoscopy, Cardiac, Orthopedic and Neurology Operating Theatres*) at CWM Hospital. The contract for the construction of the operating theatre was awarded to another Contractor. However the construction of the operating theatres was still in progress even though the expected completion date for the construction work was 18/12/14.

The audit noted that because of the delay in constructing the operating theatres the supplier only managed to install and commission equipment's in 2 (Endoscopy and the Cardiac operating theatres) out of the 4 operating theatres.

The sites for the installation of the equipment for the Orthopedic and Neurology operating theatres were not ready as at the date of audit on 13/1/15. As a result the supplier of the equipment could not install the equipment in the other 2 (Orthopedic and Neurology) operating theatres.

The equipment has been left idle for the last 7 months. As a result the Ministry did not obtain value for money from this project.

The committee was informed that there was a delay in the site preparation before the equipment's could be actually installed so the delay in site preparation caused the delay.

The Committee concurs with the Auditor General's recommendations that the Ministry should take appropriate action to expedite the completion of the remaining 2 (Orthopedic and Neurology) operating theatres.

#### **24.17 Sigatoka Maternity Unit Extensions – Contract Number WSC 98/2014**

The GTB in its letter dated 3/10/13 awarded the contract number WSC 98/2013 for the Construction of Maternity Unit and Associated Structural Works at Sigatoka Hospital to the Contractor for \$2,640,015.99 (VIP) inclusive of \$50,000 (VIP) contingency sum. The contract between the Ministry and the Contractor was signed on 5/11/13.



The review of the project files and the contract documents revealed the following anomalies:

- The contract agreement should state the project commencement and completion dates which provides the Contractor specific timeframe for completing the works.

The contract agreement signed between the Ministry and the Contractor did not state the commencement and completion dates. The finding indicates that the Ministry did not properly review the contract before signing.

In absence of the commencement and completion dates, the Contractor may unnecessarily delay the works.

- The Ministry should appoint a Clerk of Works for every capital project it undertakes. The role of the Clerk of Works should be to inspect the materials used and review the progress of the projects and provide periodic reports on the progress of the project to ensure all works are carried out to the satisfaction of the Ministry.

The Ministry engaged the Clerk of Works on 16/1/14 which was after 72 days from the project commencement date of 5/11/13. Hence the Ministry did not have any Clerk of Works for 72 days until Clerk of Works was recruited on 16/1/14.

In addition the Clerk of Works resigned on 16/7/14 before the project was completed on 3/11/14. The Ministry did not appoint another Clerk of Works for the project. The project was not supervised since the Clerk of Works resignation.

The findings show poor project management and supervision by the Ministry. This may result in use of substandard materials and poor quality of work.

The committee was informed that the contract documents were vetted by the Solicitor-General's Office before signing. The project has been completed and the new extension at the hospital is in operation. The committee notes that the Ministry does not carry out its projects without the signing of the vetted contract documents

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- Contract documents are properly reviewed before signing; and
- Clerk of Works is appointed at the commencement of the project until the project is completed.

#### **24.18 New Ba Hospital Project Management – Failure to Deduct Provisional Tax**

The Minister for Finance on 26/3/14 in a letter referenced 21/2/8(1) approved the waiver of tender for the project management consultancy services for the construction of the New Ba Hospital. The Minister for Finance appointed the Consultant on 27/3/14 as the Project Manager for the construction of New Ba Hospital at a total cost of \$598,000 (VIP).

In order to facilitate the payment of provisional tax payable by any person in respect of profits or gains of the trade, profession or vocation of that person, there shall be deducted from any payment made under any contract for services, but not being a contract of employment, including progress payments under a contract, a sum equal to 15 per cent of such payment. The sum so deducted shall be paid to the commissioner.

The Consultant did not provide Tax Exemption Certificate from Fiji Revenue and Customs Authority (FRCA) to the Ministry. Therefore the Ministry should have deducted the provisional tax at a rate of 15% on all the payments made to the Consultant.

The Ministry paid total of \$247,250 to the Consultant as at 10/12/14. However the Ministry did not deduct provisional tax totaling \$37,087.50 from the payments made to the Consultant.

The Ministry did not comply with Income Tax Act. As a result provisional tax were not deducted and submitted to FRCA by the Ministry.

The committee was informed that all contractors are deducted 5 percent provisional tax which came into effect at the beginning of 2016. The reason why it was not deducted was because at the time of audit, the provisional tax exemption certificates were provided, so once that certificate is in place then the Ministry does not deduct provisional tax.

The Committee agrees with the Auditor General's recommendations that the Ministry should deduct provisional tax of 15% from all progress payments when the exemption certificate is not provided by the client.

#### **24.19 Exterior Painting Works of Lautoka Hospital – Contract Number WSC 64/2014**

The GTB awarded the contract number WSC64/2014 for the external painting of Lautoka Hospital to the Contractor on 29/4/14 for total contract sum of \$756,888 (VIP) inclusive of 20% contingency sum.

The review of the project files and the contract documents revealed the following anomalies:

- The Tender Bid submission required the Bidder to provide a detailed cost breakdown for each summary of works. The summary of works included preliminaries and general, painting works and prime cost for the aluminum windows and doors.

However the Contractor when submitting its bids for the exterior painting of Lautoka Hospital did not provide the detailed cost breakdown for each summary of works. Instead the company provided the total cost for each summary of works.

- A total of 7 companies submitted their bids for the exterior painting of Lautoka Hospital. After the bid assessment the Tender Evaluation Committee (TEC) recommended that the tender to be awarded to another Contractor based on the technical evaluation and similar works carried out at CWM Hospital in the past. However, the GTB awarded the tender to Contractor which was the 3<sup>rd</sup> lowest bidder.

The GTB did not provide the reason as to why the tender was not awarded to the Contractor as recommended by the TEC.

- The contingency sum for the project was \$126,148 (VIP) which is 20% of the contract price.

The Permanent Secretary for Health approved 7 variations to the Contractor amounting to \$249,371 which was \$123,223 more than the contingency sum approved by the GTB. In addition the Ministry did not obtain GTB's approval for the variations in excess of the contingency sum totaling \$123,223. Refer to Table 24.19 for details of the variations.

**Table 24.19: Details of Variations**

| Variation Number        | Scope  | Amount (\$)    |
|-------------------------|--|----------------|
| 1                       | Removal of existing steel grill to allow for painting                | 3,080          |
| 2                       | Make good to steel framed damaged windows and damaged external doors | 99,000         |
| 3                       | Install bird netting   | 85,800         |
| 4                       | Make good damaged walkway to dental building                         | 10,800         |
| 5                       | Install aluminium sunshade to dental building                        | 38,811         |
| 6                       | Install aluminium sunshades to dental building                       | 9,800          |
| 7                       | Install damaged flashings to maternity building                      | 2,080          |
| <b>Total Variations</b> |  | <b>249,371</b> |

The findings indicate that the Asset Management Unit did not properly monitor and supervise the use of the contingency sum.

The finding shows poor planning by the Ministry in undertaking capital projects. In addition proper procurement procedures were not followed by the Ministry. This resulted in variations to the contract works totaling \$249,371.

The committee was informed that this project again has been completed with the Government Tender Board (GTB) having the authority to approve this tender.

As improvements, the Ministry of Health calls for tenders and quotations for its purchases and evaluated in an Evaluation Committee. Recommendations are then made to GTB who go through the recommendations and through their own deliberations; the GTB awards the tender to the best suited company.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Tender evaluation committee's recommendations are clarified with the GTB;
- Proper procurement process is followed for all capital works; and
- Capital works are properly supervised.

#### **24.20 Anomalies in General Maintenance of South Wing CWM Hospital**

The Government Tender Board (GTB) in its letter dated 30/5/14 awarded the contract number WSC38/2014 for the General Maintenance of South Wing of the Colonial War Memorial (CWM) Hospital to the Contractor at a total cost of \$240,000 (VIP) inclusive of 20% contingency sum. The contract work included painting the interior and exterior of South Wing of the CWM Hospital.

The review of the project files and the contract documents revealed the following anomalies:

- The Ministry should appoint a Clerk of Works for every capital project it undertakes. The role of the Clerk of Works should be to inspect the materials used and review the progress of the projects and provide periodic reports on the progress of the project to ensure all works are carried out to the satisfaction of the Ministry.

The Ministry appointed Project Officer 1 to supervise the project. The works commenced on 10/9/14 and was supposed to be completed on 15/10/14. However the Contractor was not able to complete the project within the expected completion time. Thus, the Ministry approved additional 4 weeks for the Contractor to complete the works on 21/11/14.

However the Project Officer did not prepare the site inspection reports for the additional 4 weeks of works carried out by the Contractor.

This indicates that the work carried out by the Contractor for additional four weeks was not supervised by the Project Officer. As a result poor workmanship was noted during the site visit to South Wing CWM Hospital on 11/12/14. Refer to figures 24.1 to 24.8 for illustration.

- On the receipt of the Contractor's claims for payment the client in consultation with the Ministry of Works, Transport and Public Utilities (MWT and PU) shall assess each of the claims as necessary to ensure that it complies with the terms of the contract and client's evaluation of the works carried out. (Agreement for Construction Works 5/9/14, Part 11, Clause 6.4)

During a physical inspection of works completed by the Contractor at South Wing of CWM Hospital on 11/12/14, several instances of poor workmanship were noted.

Despite the poor workmanship of the work completed by the Contractor, the Director Building and Government Architects from the Ministry of Works, Transport and Public Utilities certified and approved all the contractor claims.

Based on the certification and approval of the progress claims by Director Building and Government Architects from the Ministry of Works, Transport and Public Utilities the Ministry paid a total of \$186,362.47 to the Contractor as at 19/12/14.

Hence the Director Building and Government Architects and the Ministry of Health Clerk of Works, Project Officer 1 did not properly assess the quality of works done by the contractor before approving the claims for payment.

The findings indicate poor project management and supervision by the Director Building and Government Architects and the Ministry of Health's Clerk of Works which resulted in poor workmanship for the works completed by the Contractor.

The committee was advised that this project has been completed. The Ministry had advertised for the Clerk of Works. However, there has been less interest shown from the public so the Clerk of Works (Maintenance) is not cost-effective as several maintenance projects are taken within one financial year, so it is actually difficult getting qualified Clerk of Works who really know the project and understand those big projects to really guide through. However, by looking at the capital projects that are being done, the Ministry is engaging in place the Clerk of Works and they submit weekly reports on the progress of the projects.

The Committee agrees with the Auditor General's recommendations that the Ministry should always ensure that:

- Adequate supervision is provided to the Clerk of Works;

- The Clerk of Works and MWT and PU properly assess the works completed by the Contractor before approving the claims for payment; and
- Disciplinary action is taken against the Clerk of Works and MWT and PU for poor review and assessment for work before approving the claims for payment.

#### **24.21 Anomalies in the Construction of Quarters at Bagasau Nursing Station**

The GTB in its meeting held on 08/08/13 approved the withdrawal of the tender for construction of a Grade 6 Quarters at Bagasau Nursing Station as requested by the Ministry. The Ministry later on 19/08/13 requested GTB that the quarters be constructed by Ministry of Works, Transport and Public Utilities (MWT and PU) at the estimated cost of \$185,566 as quoted by the MWT and PU. The Ministry of Finance also approved the request in its correspondence dated 30/08/13 for the waiver of tender and that the proposed works be carried out by MWT and PU.

The Ministry of Health engaged Ministry of Works, Transport and Public Utilities (MWT and PU) on 19/09/13 through a Memorandum of Understanding (MoU) for the construction of a Grade 6 Quarters at Bagasau Nursing Station at a total cost of \$185,566 (VIP).

The review of the project files and the contract documents revealed the following anomalies:

- The MoU should state the expected project commencement and completion dates. The MoU should also state the defects liability period and issue of Completion Certificate on completion of the project.

The MoU between the Ministry of Health and MWT and PU did not state the project commencement and completion dates. Hence project duration was not stated in the MoU. In addition the MoU did not include the defects liability period and the issue of completion certificate conditions.

- The payment for the project work should be made in stages based on the satisfactory project progress reports. However the Ministry paid 100% of the contract sum or \$185,566 in advance to MWT and PU on 26/9/13 before the project works began.
- The project was to be completed within 8 weeks in 2013. However the MWT and PU was not able to complete the project in 2013 and returned unused funds totalling \$48,577 to the Ministry of Health at the end of 2013.

The Ministry had to pay back \$48,577 again to the MWT and PU in 2014 even though no funds were allocated for the project in 2014.

In addition the project was completed in 30 weeks on 24/4/14 since the date of full payment of the contract amount in advance on 26/9/13. Hence the project was delayed by 22 weeks.

- The Director Building and Government Architect will conduct fortnightly site meetings to provide an update on the construction. (*Memorandum of Understanding – Ministry of Works Transport and Public Utilities and Ministry of Health 19/9/13, Clause 3.5*)

The Director Building and Government Architect failed to provide fortnightly reports to the Ministry of Health on a fortnightly basis. This indicates that project sites were not visited by the Director Building and Government Architect at all during the construction period.

In addition the Ministry of Health did not follow up with MWT and PU for the fortnightly reports.

The findings indicate poor project management by Ministry of Health. As a result the project was not completed on time.

The committee was informed that this project has been completed and as usual, all the contract documents are vetted by the Solicitor-General's Office after which it is signed and then the contractors are engaged to carry out those works.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that:

- All MoU's are properly reviewed prior to signing and important clauses such as the project commencement and completion dates are included; and
- Consider private contractors for capital projects in future due to MWT and PU's inability to complete the project on time.

#### **24.22 Maintenance and Refurbishment of Nurses Home at Tamavua – Contract Number 117/2014**

The GTB in its letter dated 7/8/14 awarded the contract number WSC117/2014 for Maintenance and Refurbishment of Nurses Home at Tamavua to the Contractor at a total cost of \$182,600 (VIP) inclusive of 10% contingency sum. The contract was signed on 1/9/14 by both parties.

The Ministry obtained project total estimated cost from MWT and PU to have a fair idea of the financial resources required for the project and to select a contractor who can carry out the project successfully. The MWT and PU estimated that the overall cost of the project would be approximately \$270,910.82.

However the project was completed by the Contractor at a cost of \$182,600 which was \$88,310.82 or 48.36% lower than the cost estimates provided by MWT and PU.

The significant variance in the MWT and PU cost estimate and the actual cost of the project indicates poor project costing by MWT and PU. Such inaccurate estimates may result in incorrect decision making by the Ministry in selecting the most cost effective bidder.

The committee was informed that this project has been completed, and the Ministry agrees on the estimate by the Ministry of Infrastructure and Transport being somewhat overstated.

The tender meeting was also discussed and the estimate cost was based on the scope of works at the site. The contractor that was recommended had visited the site before submitting their bid which is a normal practice. The bidders, are taken around once the tenders are advertised, showing them what actually is needed to be done so that if there are any issues from their end, it is clarified before they make their submissions.

The Committee concurs with the Auditor General's recommendations that the Ministry should discuss the matter with MWT and PU to ensure better estimates are made in future.

#### **24.23 MRI Machine Room Maintenance Works at CWM Hospital**

The Government Tender Board (GTB) in its meeting No. 10/2014 held on 12/6/14 approved the waiver of tender for maintenance works at the MRI machine room at CWM Hospital. In the same meeting the GTB approved to award the contract for maintenance works to the Contractor for \$203,891.85 (VIP). The GTB awarded the contract to the Contractor on the basis that it was the sole supplier of the MRI machine and was the only company that could carry out the maintenance works required in the room. The contract between the Ministry and the Contractor was signed on 28/8/14. The Ministry made 50% advance payment to the Contractor on 3/7/14 as approved by the GTB.

The review of the contract documents and work completed revealed the following anomalies:

- All Government contracts must be prepared by the organization and should be vetted by the Solicitor General. (*PSC Circular No 23/2001*) The contract must clearly outline all the necessary terms and conditions of the engagement.

However the necessary terms and conditions of the contract such as the performance bond, defect liability period, delay damages and retention sum



were not included in the contract agreement signed between the Ministry and the Contractor.

In absence of necessary terms and conditions the Ministry will not be able to hold any funds back from the contractor if it fails to fulfill its obligation under the contract.

- The Board (GTB) directed that the Chief Accountant's endorsement must be sought for 50% advance payment. (*GTB Approval dated on 12/06/14*) The Ministry paid \$101,945.93 or 50% of the total contract sums to the Contractor on 3/7/14 as advance payment as per the GTB's approval. However the Ministry did not obtain the Chief Accountant's approval before making the advance payment.

The Ministry did not adhere to the GTB's instructions. The advance payment to the contractor was unauthorized.

- All contract agreement should be signed by both parties prior to the commencement of the work.

The Contractor commenced the actual work on 16/07/14. However the contract between the Ministry and the Contractor was signed on 28/8/14 which was 44 days after the commencement of works. The Ministry did not advice the GTB on the requirements of the Contractor for the waiver of the conditions in the contract for the performance bond, defect liability period, delay damages and retention sum and the signing of the contract after 100% payment of the contract sum.

Hence the government's interest was not protected without a contract until 28/8/14.

The findings indicate that proper process was not followed by the Ministry's Senior Officers when undertaking capital works. As a result there is a risk of loss of public funds should disputes arise between the Ministry and the Contractor.

The committee was informed that the MRI Machine being the only one in Fiji, serves the entire nation, and the need to immediately restore the services was of highest priority therefore the rationale of selecting the contractor who installed and commissioned the machine is justified, because they are the best qualified to look into this unexpected event.

The machine having stopped services had put the lives of local and regional patients at risk. The costs of transfers of patients overseas would accumulate and be greater than the repair cost of 50-plus patients being on the waiting list.

The contractor had demanded for advance payment before they would carry out the works.

The Committee concurs with the Auditor General's recommendations that the Ministry should take disciplinary action against Officers responsible for not following proper procedures.

#### **24.24 Supply and Installation of CAT6 Structured Cabling – CWM Hospital**

The Information Technology & Computing (ITC) Services awarded the contract number ITC 2/2013 to the Contractor for total contract sum of \$175,000 (VIP) for supply and installation of IT cabling materials for various departments at CWM Hospital. The contract between the Ministry and the Contractor was signed on 27/5/14. The project commencement date was 27/5/14 and the completion date was 27/9/14. The Ministry paid 30% of the contract sum or \$52,500 in advance to the supplier as per the contract agreement.

The supplier must supply and install the required materials as per the scope of works for various departments at the CWM Hospital. (*Agreement between the Ministry and the Contractor, Clause 2.2*)

The audit noted that the Contractor did not perform the contract works up to the satisfaction of the Ministry. The Ministry on 25/11/14 wrote a Memorandum to the Manager for Information Technology Services (ITC) regarding the poor workmanship and other issues observed in the site visit report which included:

- The Contractor had exceeded the time frame given for completion of works;
- The Contractor's technicians are not using Ministry of Health Management Systems (MoHMS) ID's instead some other site ID's are used;
- The Contractor's technician are not reporting to the site on time;
- The Contractor failed to provide the project plan and updates;
- The progress updates given to MOH does not comply to the template which makes it impossible to synchronize with previous updates; and
- The Contractor has used the current ducts thus the current setup is offline from past 5-6 months.

The ITC did not respond to the Ministry's concerns. In addition the Ministry also did not follow up with the ITC on the issues raised in its Memo dated 25/11/14.

The findings indicate that clear line of responsibilities was not established between the Ministry and ITC for the project. As a result the project was not properly supervised either by the Ministry or ITC which resulted in the delay in completion and project works not carried out up to the Ministry's expectations.

The committee was informed that the work is still not completed. The Ministry had referred the case to ITC (Information Technology and Computing Services) and it is still an ongoing dialogue between the contractor and ITC and the Ministry is currently undertaking to ensure that this work is completed.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Clear line of responsibilities are established and included in the contract agreements; and
- The project is properly planned and supervised.

#### **24.25 Anomalies in Contracts for Supply and Installation of CAT6 Structured Cabling – Lautoka and Labasa Hospital**

The ITC Services awarded the contracts to Contractor A and Contractor B for the supply and installation of IT cabling materials to Lautoka and Labasa Hospital respectively. Details of the contracts are shown in Table 24.20 below.

**Table 24.20: Details of Contract**

| Contract Numbers    | Contract Details  | Contractor   | Contract Amount (\$) |
|---------------------|---|--------------|----------------------|
| ITC Contract 3/2013 | Supply and Installation of CAT6 structured cabling for Lautoka hospital | Contractor B | 84,290               |
| ITC Contract 4/2013 | Supply and Installation of CAT6 structured cabling for Labasa hospital  | Contractor A | 40,000               |

Both the projects were to commence on 27/5/14 and to be completed on 27/9/14.

The contract documents for structured cabling works require the supplier to ensure that the warranty cover in relation to the works is known to the Ministry. (*Agreement between the Ministry and Contractor A, Clause 6.1*)

The projects at Lautoka and Labasa Hospitals were completed on 17/7/14 and 9/7/14 respectively. The audit noted that the Ministry did not obtain the warranty cover on the IT equipment used in the project.

The finding indicates that the Ministry was not vigilant in ensuring that the Contractor complied with the terms of the contract agreement. As a result the Ministry may not be able to hold the Contractor liable for malfunction of the IT equipment used in the project during warranty period.

The committee was informed that the work has been completed for Lautoka - Phase 1 and Labasa - Phase 1. The current contract that exists contains a warranty clause, as the ITC's requirements to ensure these works are completed.

The Committee concurs with the Auditor General's recommendations that the Ministry must ensure that the terms and conditions of the Contract Agreement are complied with.

#### **24.26 Anomalies in Project Management**

Capital projects need to be properly supervised and managed from planning to post implementation phase. Project management is the application of knowledge, skills, tools and techniques to achieve the project requirements.

The audit examined several capital projects carried out by the Ministry during 2014. The following anomalies were noted in terms of project management and supervision

The Ministry should appoint a Clerk of Works for every capital project it undertakes. The role of the Clerk of Works should be to inspect the materials used and review the progress of the projects and provide periodic reports on the progress of the project to ensure all works are carried out to the satisfaction of the Ministry.

The Ministry appointed Project Officer 1 and Project Officer 2 as Project Officers stationed at Ministry of Health headquarters. The Project Officers amongst other duties were appointed as Clerks of Works for the capital projects undertaken by the Ministry. Project Officer 1 was appointed as Clerk of Works for Hospitals while Project Officer 2 for Health Centre & Nursing Stations.

The Ministry implemented several capital projects during the year, some of which were implemented parallelly with other projects. The audit noted that the Ministry only hired 2 Clerks of Works to supervise all these projects which were practically impossible.

Hence for several projects the Ministry's Clerks of Works were not based at the project sites all the time to directly supervise and monitor the project works carried out by the Contractors. Hence there was very little on site supervision by the Clerks of Works as they had many projects to inspect at the same time. Refer to Table 24.21 for examples.

**Table 24.21: Examples of Projects Where Clerk of Works Was Not Based At Project Site**

| Contract Details  | Contract Cost (\$) | Clerk of Works    |
|---|--------------------|-------------------|
| WSC38/2014 for the General Maintenance of South Wing at Colonial War Memorial (CWM)       | 200,000.00         | Project Officer 1 |
| WSC200/2013 Contract for Refurbishment and Extension of Operating Complex at CWM Hospital | 9,954,295.12       | Project Officer 1 |
| WSC117/2014 for Maintenance and Refurbishment of Nurses Home at Tamavua                   | 164,340.00         | Project Officer 2 |
| Contract for Maintenance Works of MRI Machine room at CWM Hospital                        | 203,891.85         | Project Officer 1 |
| WSC116/2014 Maintenance and Refurbishment Lami Health Centre                              | 274,752.70         | Project Officer 2 |
| WSC126/2014 Maintenance and Refurbishment Nausori Health Centre                           | 283,004.67         | Project Officer 2 |

The finding indicates that adequate project supervision and reviews were not carried out by the Ministry. There is a high risk that the Contractors may use substandard materials and projects not completed to the satisfaction of the Ministry.

Project management requires great deal of analytical and management skills to ensure projects are completed on time and according to the predetermined design and specifications and within the budget.

The audit noted instances where the projects were not completed within the expected completion time.

The Ministry had to allow the Contractors additional time to complete the project resulting in additional cost to the Ministry.

The finding indicates that adequate project supervision and reviews were not provided by the Ministry. This may result in project delays, additional costs, substandard material used and poor workmanship.

The committee was informed that while engagement of the Clerk of Works is supported, it is very difficult to practice for each and every project in terms of finance, salaries and their recruitment process.

For all major construction projects, however, the Ministry is ensuring to have the Clerk of Works as the way forward and way of improvements.

The Committee concurs with the Auditor General's recommendations that the Ministry must ensure to have a full time Clerk of Works for each project and adequate project supervision and reviews are provided.

#### **24.27 Fresh Tenders not called**

Fresh Tenders must be called for from reputable companies for significant additional works that was not in the initial scope of works.

The audit noted several instances where the Ministry did not call for fresh tenders for additional works which were not part of the initial scope of works. For some variations the Ministry requested the GTB approval while for others no approval from the GTB was obtained.

The GTB in its letter dated 7/8/14 also raised its concern on the huge variations cost for Contract Number WSC 200/2012 which was not determined by the Ministry during the initial scoping. The GTB highlighted that the huge variation costs basically calls for a fresh tender.

The variations indicate poor planning by the Ministry for capital projects. In addition proper procurement procedures were not followed by the Ministry which resulted in significant variations to the projects totaling \$2,242,543.22.

The committee was informed that the process of improving and enhancing financial controls never ceases, it is going on all through the year. Of course, the Ministry do have a fixed point every year when the auditors come and identify issues. These findings should not be seen as critical of what has gone before. The Ministry have those issues to thier agenda and tackle them vigorously following the receipt of the audit reports.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Properly plan and review capital projects to avoid variations;
- Comply with procurement procedures for all capital works; and
- Investigate substantial variation allowed to the contractors and not calling for fresh tenders and take appropriate action.

#### **24.28 GTB Approvals not obtained for Variation, Waiver of Performance Bond and Reduction in Contingency Sum**

Any variations to the value of the initial contract must be approved by the Board.  
(*Procurement Regulations 2010 Section 11[2]*)

The audit noted instances where the Ministry did not obtain approval from the GTB for variation in the performance bond amount to be paid by the Contractor, waiver of performance bond and reduction in the contingency sum. Refer to Table 24.24 for details.

**Table 24.24: Details of Changes Made by the Ministry without Seeking Approval from GTB**

| Contract No  | Project Name   | Details of Changes   | Underprovided (\$) |
|--------------|--|--|--------------------|
| WSC 200/2012 | Refurbishment and Extension of Operating Theatre Complex at CWM Hospital | Performance bond required by GTB was 10% however the Ministry required the contractor to provide 5%. Performance bond underprovided by 5%. | 497,714.76         |
| CTN 192/2012 | Provision of Security Services   | The Ministry obtained approval from the Permanent Secretary of Finance for the waiver of the Performance Bond of 15%.                      | 349,394.76         |
| WSC 38/2014  | General Maintenance of South Wing CWM Hospital                           | Contingency Sum reduced from 20% to 10%.   | 24,000.00          |

The findings indicate that the correct amount of performance bond was not obtained from the Contractors and the contingency sum may have been reduced to assist the Contractor rather than protecting government's interest. Hence the Ministry did not comply with conditions of awarding the contract set by the GTB.

The committee was informed that that the GTB approvals for the variations have been sought. The Ministry goes back to the Tender Board seeking their endorsements. Officers involved in the signing of contracts, unfortunately, are no longer in the Ministry at the moment.

For Performance Bond for Service Contracts: the Ministry has got service contracts such as security and the cleaning services. The Ministry has inquired from the Ministry of Economy if there is a performance bond needed on the service contracts, however, the Ministry has the performance bond on all the capital projects but they were not sure so we are liaising with the Ministry of Economy on that basis.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- investigate and take disciplinary action against officers responsible for reducing the performance bond and contingency sum despite clear directive from GTB that performance bond to be 10% of the contract price; and
- Ensure that the terms and conditions of the GTB are complied with.

#### **24.29 No Valid Indemnity Cover**

Under the Contract Agreement for Construction Works between the Contractor and the Ministry the Contractor is required to indemnify the Client and keep the Client indemnified against all proceeding, claims, demands, liabilities or expenses of any nature brought or alleged against the Ministry arising directly from the negligence or bad faith of the Contractor and its employees.

The audit noted several instances of indemnity insurance cover provided by the Contractor had expired while the project was still in progress. The Ministry did not

obtain valid indemnity insurance cover for its employees and third parties after the indemnity insurance cover expired. Refer to Table 24.25 for examples.

**Table 24.25: Examples of Projects Where Valid Indemnity Covers Were not obtained Upon Expiry**

| Contract Details  | Contract Sum (\$) | Type of Indemnity Cover                   | Date of Expiry | Completion Date |
|---|-------------------|---|----------------|-----------------|
| WSC38/2014 for the General Maintenance of South Wing at Colonial War Memorial (CWM)                     | 200,000.00        | Public Liability                          | 19/7/14        | 21/11/14        |
| WSC117/2014 for Maintenance and Refurbishment of Nurses Home at Tamavua                                 | 164,340.00        | Public Liability and Workers Compensation | 9/7/14         | 25/11/14        |
| WSC98/2013 for the Construction of Maternity Unit and Associated Structural Works at Sigatoka Hospital  | 2,590,015.99      | Public Liability                          | 23/10/14       | 3/11/14         |
| WSC95/2014 Maintenance and Refurbishment of Existing Maternity Unit at Sigatoka Sub-Divisional Hospital | 266,998.08        | Public Liability                          | 3/8/14         | 10/10/14        |
| ITC Contract 2/2013 – Supply and Installation of CAT6 structured cabling for CWM Hospital               | 175,000.00        | Public Liability and Workers Compensation | 27/7/14        | Not Complete    |
| ITC Contract 3/2013 – Supply and Installation of CAT6 structured cabling for Lautoka hospital           | 84,290.00         | Public Liability and Workers Compensation | 27/7/14        | 30/7/14         |
| ITC contract 4/2013 - Supply and Installation of CAT6 structured cabling for Labasa hospital            | 40,000.00         | Public Liability and Workers Compensation | 27/7/14        | 4/10/14         |
| Project Management Consultancy Agreement for the New Ba Hospital  | 598,000.00        | Professional Indemnity Insurance          | 23/7/14        | Not Complete    |

The finding indicates laxity of Ministry's staff for not following up on the validity of the indemnity insurance covers. In the absence of valid indemnity covers, the Ministry may not be able to hold the contractors liable for damages and injuries to the Contractor's workers, Hospital staff and the general public.

The committee was informed that the Ministry does not have a specialized person to look after contract management however this requirement has been incorporated as part of the contract where a separate clause is inserted for a contractor to obtain insurance and to keep them valid for the duration of the projects. That is an improvement as the projects are going on now and these are the basic requirements as of now for the contractors to provide before they are actually engaged, so there is insurance, FNPF registrations, tax registration - all these are now a requirement before we engage any contractors.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- The indemnity insurance covers are obtained from all Contractors; and
- Where indemnity insurance cover is provided, the expiry of the cover is monitored to have the cover renewed on a timely basis.

### 24.30 Poor Planning of Capital Construction

All funds allocated under the approved budget shall be utilized during the year as the authority for the expenses lapses at the end of the financial year in which it was approved.



The Ministry was allocated a total of \$29,940,000 under SEG 8 for Capital Construction in 2014 for various capital works to be undertaken by the Ministry. The original budgetary allocation of \$29,940,000 was revised downwards to \$26,728,112 during the year.

However the Ministry only utilized \$15,729,166.31 or 58.9% of the total revised budget of \$26,728,112 allocated for Capital Construction for the year 2014. Hence the Ministry did not use the \$10,998,946 or 41.1% of its Capital Construction allocation in 2014.

The non-utilization of Capital Construction allocation was due to Ministry of Finance not releasing the funds when requested. This delayed the completion of capital projects planned and approved by the Ministry.

The committee was informed that the Ministry will work closely with the Construction Implementation Unit (Ministry of Economy) and Office of the Auditor General to bring about improvements in the management of Capital projects.

The Committee agrees with the Auditor General's recommendations that the Ministry should liaise with the Ministry of Finance so that funds allocated for a particular year is fully utilized and the capital projects are completed as planned.

#### **24.31 Outsourcing of Security Services**

The Ministry's security services was contracted to the Service Provider on 8/11/12 through contract number 192/2012 effective from 14/1/13 for 2 years. The total contract price was \$1,116,944.40 (VIP) per annum at an hourly rate of \$3.30 or \$2,233,888.80 (VIP) for two years. The contract price was increased to \$2,329,298.40 following a variation of \$95,409.60.

##### **24.31.1 Changes in Security Sites**

Neither the Ministry nor the Supplier shall be bound by any variation, waiver or additional conditions except as agreed by both parties in writing. (*Agreement for the Provision of Security Services – Tender No. CTN 192/2012 – Ministry of Health and Service Provider on 14/1/13, Clause 7.2*)

The agreement between the Ministry and the service provider stated that the payments will be made in accordance with the price analysis sheet. Amongst other things, the price analysis sheet provides details of the centres which the service provider must service and the respective hours of security service required per week.

The audit noted the Ministry without the approval of the GTB requested the security company to also provide services at Lami and Raiwaqa Health Centre. The Ministry made several payments to the service provider for providing security

services at Lami and Raiwaqa Health Centre even though the centres were not part of the price analysis sheet. Refer to Table 24.26 for examples.

**Table 24.26: Examples of Payments made to the Security Provider for Lami and Raiwaqa Health Centres**

| Payment Date               | Cheque Number | Payment for Week Ending | Lami Health Centre (\$) | Raiwaqa Health Centre (\$) | Total Paid (\$) |
|----------------------------|---------------|-------------------------|-------------------------|----------------------------|-----------------|
| 22/10/14                   | 309784        | 6/10/14 – 12/10/14      | 168.30                  | 168.30                     | 673.20          |
|                            |               | 13/10/14 – 19/10/14     | 168.30                  | 168.30                     |                 |
| 04/12/14                   | 310909        | 17/11/14 -23/11/14      | 168.30                  | 168.30                     | 673.20          |
|                            |               | 24/11/14-30/11/14       | 168.30                  | 168.30                     |                 |
| 20/11/14                   | 310504        | 3/11/14 – 9/11/14       | 168.30                  | 168.30                     | 673.20          |
|                            |               | 10/11/14 – 16/11/14     | 168.30                  | 168.30                     |                 |
| <b>Total (sample only)</b> |               |                         |                         |                            | <b>2,019.60</b> |

For the additional security services at Lami and Raiwaqa Health Centres the Ministry requested the security company to relocate 2 security officers from the Divisional Office in Tamavua to Lami and Raiwaqa Health Centres. Even though there was no increase in the total contract sum, the Ministry did not seek approval from the GTB for the variation in the scope of work.

The findings indicate that the Ministry did not follow proper process for variations in the contract works. In absence of proper approval the security services provided by the company at Lami and Raiwaqa Health Centers were unauthorized.

The committee was informed that the Ministry has adhered to the terms of agreement at all times and at no time it has gone beyond the scope of the agreement. The timesheet for the claims submitted by the security service providers has now been approved by the SDMO (Sigatoka) or the Executive Officer in the absence of the SDMO.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Adhere to the terms of the agreement at all times; and
- Ensure that proper approvals are obtained from GTB prior to making any variations in the contracted works.

#### **24.31.2 Verification of Payment**

Claims submitted by the service providers must be approved by Senior Officers to ensure rates approved in the contract agreement are the rates applied by the Contracted service provider for payment.

The audit noted several instances of claims submitted by the service provider for the Sigatoka Hospital were approved by a Temporary Relieving Clerical Officer 1 (TRCO).

The finding shows poor control over payment to the security service provider. There is a high risk of misappropriation of public funds.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure:

- That the claims and hours are approved by Senior Officers only; and
- To review the approval process and hours of service provided by the Security company for other centers and takes appropriate corrective action.

### **24.31.3 Anomalies in Performance of Services**

The supplier should provide the services at the required times in accordance with schedule 2, diligently, expeditiously and with due skill and care. (*Agreement for Provision of Security Services Tender number 192/2012, Section 3[b]*)

The audit noted instances where the security service provider failed to provide security services at various locations and stations for different shifts as per the Contract Agreement.

Even though the Ministry paid only for the hours of services provided the Ministry may not be getting the level of security services required at various centers.

The finding indicates that the Ministry failed to monitor and review the performance of the security services provider. The poor performance of the service provider may result in Ministry's assets at a risk of vandalism, theft and misuse.

The Committee agrees with the Auditor General's recommendations that the Ministry should regularly monitor the performance of the security services to ensure security is provided at all centers as per the contract agreement.

### **24.32 Outsourcing of Cleaning Services**

The Government Tender Board (GTB) in its letter dated 27/9/14 awarded the contract number CTN131/2014 for Provision of Cleaning Services at Colonial War Memorial (CWM) Hospital to the service provider at a total cost of \$1,237,301 (VIP) annually or \$23,794.26 (VIP) weekly.

The audit noted the following anomalies in Ministry's cleaning services:

- Performance bond, terms and conditions for purchase and supply of goods and services for the whole of government shall be reflected in the contract document. All bidders whether local or overseas, shall be required to pay a performance bond if the contract is valued more than FJ\$50,000 during the period of the contract. (*Finance Circular 15/2013 – Policy on Determination of Performance Bond 11/6/13, Section 3.1.1*)

The performance bond clause was not included in the contract agreement between the Ministry and cleaning services provider. In addition the Ministry did not obtain performance bond from the cleaning services provider. Hence the Ministry did not comply with the Finance Circular No.15/2013 'Policy on Determination of Performance Bond'.

- The agreement between the Ministry and the service provider dated 28/10/14 required that every cleaner to undergo Hepatitis B Vaccination which will be provided by the service provider. (*Agreement CTN 131/2014 - 28/10/14, Schedule 1 Clause 12*)

However the Ministry was not aware and did not follow up with the service provider whether its cleaners were vaccinated for Hepatitis B.

- Cleaning equipment should be colour coded as per Infection Control Guidelines. (*Agreement CTN 131/2014 - 28/10/14, Schedule 1 Clause 2*)

The Ministry did not know whether the equipment used by the service was in accordance with the Infection Control Guidelines.

Therefore, the audit was unable to ascertain if the service provider complied with the Infection Control Guidelines.

The finding indicates that the Ministry did not comply with the Finance Circular 15/2013. In addition the Ministry did not exercise due diligence to ensure the service provider complied with the terms and conditions of the agreement 131/2014 for the Provision of Cleaning Services.

The committee was informed that the Ministry will ensure that ensure that future contracts will be in accordance with Fiji Procurement Regulations and Government Tender Board Compliance.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- The performance bond clause is included in the contract agreement with service provider; and
- The service provider complies with the contract agreement.

### **24.33 Anomalies in Charter of Aircraft**

The Ministry engaged Company C, Company D and Company E to provide charter services for medical evacuation of patients from Maritime Island to CWM Hospital. The Ministry was allocated sum of \$1,283,600 in the 2014 budget for

Charter of Aircraft. The budget was later revised to \$2,436,225 during the year. Out of the total revised budget of \$2,436,225 the Ministry used a total of \$2,374,184.79 for charter services in 2014. Refer to Table 24.27 for details of budget allocations and actuals for the last 5 years.

**Table 24.27: Details of Revised Budget and Actual Expenditure**

| Details            | 2014<br>(\$) | 2013<br>(\$) | 2012<br>(\$) | 2011<br>(\$) | 2010<br>(\$) |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Revised Budget     | 2,436,225.00 | 1,916,970.00 | 750,000.00   | 900,000.00   | 500,000.00   |
| Actual Expenditure | 2,426,339.40 | 1,867,178.09 | 1,046,999.59 | 887,114.00   | 885,794.00   |
| Variance           | 9,885.60     | 49,791.91    | (296,999.59) | 12,886.00    | (385,794.00) |

The audit noted the following anomalies in Charter of Aircrafts:

- Expenditure over \$50,000 requires that tenders to be called for and contracts awarded to the successful bidder subject to approval of the GTB.

However the Ministry did not call for tenders for charter of aircraft services despite the total amount paid for charter of aircraft was in excess of \$50,000 annually. The Ministry obtained services from 3 aircraft service providers who were selected on ad hoc basis without following proper procedures. Refer to table 24.28 for payments made to charter aircraft service providers for the years 2012 – 2014.

**Table 24.28: Charter of Aircraft Service Fee Paid 2012 – 2014**

| Charter Services Provider | Total amount paid in 2014<br>(\$) | Total amount paid in 2013<br>(\$) | Total amount paid in 2012<br>(\$) |
|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Company D                 | 1,136,396.97                      | 1,432,535.26                      | 877,720.47                        |
| Company C                 | 394,872.22                        | 92,302.15                         | 69,713.23                         |
| Company E                 | 1,232,441.03                      | 452,600.00                        | —                                 |
| <b>Total</b>              | <b>2,763,710.22</b>               | <b>1,977,437.41</b>               | <b>947,433.70</b>                 |

In addition no contract agreements were entered into between the Ministry and the charter of aircraft service providers.

- The invoices for all goods and services obtained should be certified by the Medical Superintendents.

However the invoices from Company D and Company C were certified correct for payment by the Telephone Receptionist and a Medical Intern based at the CWM Hospital and not by the Medical Superintendent.

The Telephone Receptionist and the Medical Intern were not authorized to certify invoices as correct for payment. Refer to Table 24.29 for examples.

**Table 24.29: Examples of Invoices Certified Correct by the Telephone Receptionist and the Medical Intern**

| Invoice Date | Invoice Number | Payee     | Amount (\$)       |
|--------------|----------------|-----------|-------------------|
| 27/01/14     | FJ0068         | Company E | 15,180.00         |
| 29/01/14     | FJ0069         | Company E | 15,180.00         |
| 02/04/14     | FJ0118 – 119   | Company E | 27,089.50         |
| 02/04/14     | FJ0110         | Company E | 17,849.50         |
| 03/01/14     | FJ0053         | Company E | 25,080.00         |
| 17/02/14     | 6927           | Company C | 25,000.00         |
| 07/03/14     | 7092           | Company C | 7,650.00          |
| 25/02/14     | FJ0092         | Company E | 11,909.50         |
| 01/03/14     | FJ0094         | Company E | 8,910.00          |
| 02/04/14     | FJ0115         | Company E | 24,449.50         |
| <b>Total</b> |                |           | <b>178,298.00</b> |

In addition the Telephone Receptionist also made arrangement/bookings for the charter of aircrafts and certified the invoices as correct.

The findings show that proper procurement processes were not followed by the Ministry for charter of aircrafts. The Ministry may not be obtaining services from the most economical source.

The committee was informed that the orders were issued after the invoice was provided. With this case, it is difficult to get the dollar value of the Medivac Evacuation because this basically depends on the distance and the duration it takes to this such medic evacuation service providers to give an exact quote, so once the exercise is done, the evacuation is done, then they are in a position to give us a dollar value subject to which the Ministry then raise the order.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Proper procurement process is followed for charter of aircrafts;
- Enter into contract with the charter of aircraft service providers; and
- Accounting officers review and certify all invoices for charter of aircraft.

#### **24.34 Missing Payment Vouchers**

The Ministry should properly maintain all payment vouchers.

The audit noted that several payment vouchers for payments made in 2014 were missing and the Ministry officials could not provide these payment vouchers for audit verifications. Some of these missing payment vouchers were used to make large payments. Refer to Table 24.30 for examples of missing vouchers.

**Table 24.30: Examples of Missing Payment Vouchers**

| Date         | Cheque / EFT* Number | Amount (\$)         |
|--------------|----------------------|---------------------|
| 21/02/14     | 2245                 | 25,000.00           |
| 23/05/14     | 3547                 | 25,000.00           |
| 28/05/14     | 3628                 | 62,069.50           |
| 24/02/14     | 301799               | 16,956.55           |
| 21/03/14     | 302944               | 7,695.00            |
| 21/05/14     | 3474                 | 14,200.00           |
| 21/03/14     | 302939               | 681,975.84          |
| 30/05/14     | 305394               | 739,281.40          |
| 17/07/14     | 306863               | 593,639.94          |
| 28/05/14     | 3629                 | 191,762.00          |
| 09/05/14     | 4650                 | 181,181.25          |
| 29/04/14     | 1096                 | 250,956.15          |
| <b>Total</b> |                      | <b>2,789,717.63</b> |

\*EFT – Electronic Fund Transfer

The Ministry did not properly maintain its accounting records. This shows poor record keeping and lack of supervision by Senior Officers. In absence of these vouchers audit could not substantiate payments made to various suppliers in 2014 totaling \$2,789,717.63.

The committee was informed that the Ministry's Executive Management has advised all their officers to be diligent as far as filing of documents is concerned.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that all payment vouchers are properly filed and kept in secured place; and
- Investigate and take disciplinary action against Officers responsible for not performing their duties diligently.

#### **24.35 Outstanding Contribution for Overseas Medical and Consultancy Service**

The Ministry entered into a joint venture agreement with an overseas service provider on 12/07/12. The agreement commenced on 17/9/12 and was valid for a period of 5 years ending on 19/9/17. The agreement was a part of the Ministry's medical treatment scheme that assists patients for medical treatment not available locally.

As per the Contract Agreement (*Clause 5(a) - All cost of service, fees pertaining to the Agreement shall be entered into a Supplementary Agreement between the parties*) the Ministry entered into a Supplementary Agreement with the service provider on 17/9/12 regarding the cost of services that will be provided by overseas service provider in Fiji.

The Ministry of Health have an Overseas Medical Treatment committee which determines the patient's contribution towards overseas medical treatments. The

Ministry requires full payment of the patient's contribution in advance or at the time of the treatment on all accounts where payments are not guaranteed by an approved third party. (Clause 5(a) - All cost of service, fees pertaining to the Agreement shall be entered into a Supplementary Agreement between the parties)

However as at the date of audit (8/1/15), 15 patients' owed the Ministry a total of \$185,067.86 in respect of their contribution towards the medical treatment cost. Refer to Table 24.31 for details of outstanding contributions.

**Table 24.31: Details of Outstanding Contributions**

| Patient's Contribution (\$) | Payment Received (\$) | Balance (\$) |
|-----------------------------|-----------------------|--------------|
| 251,667.86                  | 66,600                | 185,067.86   |

Out of the total patient contribution for the medical treatment of \$251,667.86 the Ministry was able to collect only \$66,600 or 26.5% as at 8/1/15. Hence as at 8/1/15 the Ministry was owed \$185,067.86 or 73.5 % of the total patient contributions.

The finding shows poor debt collection by the Ministry. As a result the Ministry has to look for funds to provide treatment to other patients.

The committee was informed that there were cases, matters of life-and-death situations. The Ministry had to act to save lives, that was where the Ministry went ahead and got the treatments done, but we are still liaising with those patients to, please, come forward and do their payments.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- TIN of patients are obtained and filed;
- TIN of guarantors are obtained and guarantors to sign for default of payments; and
- Concerted effort is made to collect the arrears from the patients who have been treated but still owe their contribution to the Ministry.

#### **24.36 Local Purchase Order (LPO) Raised After the Date of Invoice**

A Local Purchase Order (LPO) shall be issued when procuring any goods, services or works from an organization within Fiji, irrespective of whether a contract or agreement has been entered into or not. (Ministry of Health Manual 2011 Section 2.5.1)



A LPO must be approved on line and signed by the authorizing officer (i.e. the officer with the necessary procurement authority) before being issued to the supplier. (*Ministry of Health Manual 2011 Section 2.5.9*)

The audit noted several instances of local purchase orders raised by the Ministry for charter of air crafts after the invoices were received from the air craft service providers for payment. Hence the LPO's were raised by the Ministry only to fulfill the requirement of issuing purchase orders and not as a system for control over purchase of goods and services.

The anomaly shows that the Accounting Officers did not comply with finance manual on issuing LPO's for charter of air crafts. Hence there is inadequate control for charter of aircrafts.

The committee was informed that those reasons where once the Medivac Service Providers have provided the service and only then they are in a position to inform the Ministry the actual dollar value, the cost subject to which daily orders are given.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that LPOs are issued for purchases of goods and services or works; and
- Investigate the matter and take appropriate disciplinary action against Officers responsible.

#### **24.37 Invalid Memorandum of Understanding**

The Ministry engaged Kidney Foundation of Fiji for the treatment of patients suffering from advance chronic kidney disease. The treatment (Haemodialysis) is either carried out at ICU at the CWMH or in private dialysis centre in Nadi. A sum of \$160,000 was allocated in the 2014 budget for Haemodialysis and the budget was later revised to \$313,810 during the year. The Ministry used a total of \$238,608.47 in 2014 for Haemodialysis.

A Memorandum of Understanding (MoU) should be renewed when it expires.

The audit noted that the MoU between the Ministry and Kidney Foundation expired on 31/12/13 and was not renewed as at the date of audit on 11/12/14.

The laxity on the part of the Management led to nonrenewal of the MoU between the Ministry and Kidney Foundation. In the absence of a MoU it may be difficult to resolve dispute arising between the parties.

The committee was informed that all future contracts will be vetted by Solicitor-General and endorsed by the relevant parties.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that a MoU is entered into with Kidney Foundation.

## **FIJI PHARMECUTICALS & BIOMEDICAL SERVICES**

### **24.38 Anomalies in Performance Bond**

Performance bond, terms and conditions for the supply and purchase of goods and services for the whole of government shall be reflected in the contract document. All bidders whether local or overseas, shall be required to pay a performance bond if the contract is valued more than FJ\$50,000 during the period of the contract. (Finance Circular 13, Section 5[i])

The audit noted instances where FPBS did not require the Suppliers to renew its performance bond when it expired before the suppliers delivered the required goods and services. The audit also noted several instances where FPBS procured various drugs, consumables and medical equipment from various suppliers without a performance bond from the supplier despite it was required under the contract agreement.

In addition the FPBS did not provide performance bonds for a number of contracts for supply of drugs, consumables and medical equipment for audit verification. Hence the audit could not substantiate if the suppliers submitted the performance bond.

The findings indicate that the FPBS failed to monitor the validity of the performance bonds, conduct regular follow ups with the suppliers to provide the performance bond and appropriately maintain the performance bond documents.

In absence of valid performance bonds the FPBS may not be able to recover any sum from the suppliers for non-performance.

The committee was informed that some of the contracts that the Ministry had with suppliers, some of the performance bond was not paid due to the current finalizations of some of the contracts with our Solicitor-General which have led to some of these contracts not being finalized. The Ministry carried out procurement from supplies because of the critical stock level that we have in our warehouse that if we do not replenish quickly, will lead to the disruptions of the services in the hospitals.

However, the Ministry is always carrying out in following up with their contractual finalisation with the Solicitor-General's Office so that we can execute the performance bond payment with our suppliers.

The Committee agrees with the Auditor General's recommendations that the FPBS should:

- Ensure that performance bonds submitted by the suppliers are monitored to ensure it is valid until the goods and services are delivered;
- Follow up with the suppliers to ensure performance bonds are submitted by the supplier; and
- Ensure that performance bonds are properly maintained in a safe and secure place.
- The Ministry should investigate the poor performance of officers responsible and take appropriate disciplinary action.

#### **24.39 Delay in Site Preparation**

Site survey, assessment and further modification of site and necessary preparation for installation shall be at the Ministry's own expense. (*Contract Agreement between the Ministry and respective suppliers [Site Preparation Clause]*)

Medical equipment purchased by the Ministry need to be installed within a reasonable time to ensure it is used and value for money is obtained.

The FPBS purchased Operating theatre equipment and Radiology equipment valued at \$3,354,189.46 to be installed at CWM Hospital, Lautoka Hospital and Labasa Hospital. The audit noted that the equipment's were not installed at any of these hospitals as at the date of audit on 12/1/15.

The equipment was not installed because the Ministry was unable to prepare the sites for proper installation of the equipment. The equipment has been kept unutilized from 25 days to 183 days.

The Ministry did not plan the project properly and did not consider the installation issues before procuring the equipment. Hence the Ministry was unable to install the equipment when it was received. The equipment is now idle awaiting site preparations.

The committee was informed that that there was a delay in the site preparation before this equipment's could be actually installed so the delay in site preparation caused the delay.

The Committee agrees with the Auditor General's recommendations that the Ministry should investigate why procurement of equipment was not properly planned including its installation and take appropriate disciplinary action for poor planning and delay in installation.

#### **24.40 Advance Payment without Contract Agreement**

Government Tender Board awarded the contract number CTN 3/14 to the supplier for the supply, installation and commissioning of various New Operating

Theatre Equipment for CWM Hospital at a total contract sum of FJ\$118,877.06 (VIP).

Advance payments should be made in accordance with contract agreement to avoid the loss or misuse of public funds.

The FPO made an advance payment of AU\$42,061.08 or 60% of the contract price to the supplier on 29/5/14. The audit noted that at the time of advance payment no contract agreement was signed between the Ministry and the supplier.

The audit further noted that the contract agreement was signed 42 days after the advance payment was made on 10/7/14.

The Ministry did not follow proper procurement process. In absence of the contract agreement, it may be difficult to resolve disputes arising between the parties.

The committee was informed that the Ministry is trying to improve in their process of finalizing contracts agreement through their processes with the Solicitor-General because the delay in Procurement, will also lead to the delay in the Project Completion of the sum of the Infrastructures.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that proper procedures are followed when procuring goods and services.

#### **24.41 Delay in Supply of Medical Imaging Consumables**

The Government Tender Board (GTB) in its meeting number 24/13 held on 9/12/13 awarded the Contract for the Provision of Medical Imaging Consumables to the supplier. The contract was awarded at a total cost of AU\$30,219.99 (FJ\$52,556.50).

The FPBS on 30/01/14 ordered several items via MD85101-003040 from the supplier costing \$23,800.70. The audit noted the following irregularities.

At the time of the awarding of contract the GTB in its letter to the Ministry states the delivery lead time for medical consumables. However the FPBS did not comply with GTB's delivery lead time and requested the supplier to provide its delivery lead time.

To obtain the delivery lead time from the suppliers the FPBS submits order confirmation forms to the suppliers to confirm the delivery lead time. However the indent file for the supplier did not have the order confirmation form. This indicates that the FPBS has not confirmed its order and the delivery lead time (expected time of arrival) with the supplier.

In addition the FPBS did not know when the supplies ordered were expected to be delivered.

Delay by the supplier in supplying the goods after the specified date of delivery in the agreement would entitle the purchaser to deduct \$100 per day. (*Agreement between the Ministry of Health and Supplier, Clause 2.1[e]*)

As at the date of audit on 16/1/15 the order placed by the FPBS for supply of medical consumables with the supplier was still an open order, indicating that the consumables ordered were still not received. Refer to Table 24.35 for consumables ordered but still not delivered.

**Table 24.35: Details of Items Yet to be received by FPBS**

| Product Code | Product  | Date of Order | Delivery Lead Time (Weeks) | Expected Date of Delivery | Quantity Ordered | Price Per Unit (\$) | Total Cost (\$) |
|--------------|--|---------------|----------------------------|---------------------------|------------------|---------------------|-----------------|
| 2067         | Ultra Sound Probe Covers   | 30/1/14       | 4                          | 27/2/14                   | 2                | 616.92              | 1,233.83        |
| 2742         | Sony Color Printing Pack for V10 Ultrasound Machine UP-C21L,GS-128 | 30/1/14       | 8-10                       | 10/4/14                   | 10               | 169.76              | 1,697.58        |

The FBPS did not take any action to expedite the procurement of these essential medical consumables, such as considering the alternative supplier (*GTB has approved Supplier J as an alternative supplier for these consumable*) approved by the GTB.

The findings indicate that the FPBS did not fully comply with the GTB's terms of awarding the tender.

As a result essential medical consumables were not received from the suppliers within the expected time of delivery.

The committee was informed that the delay of supplies from overseas is due to manufacturing process delays. The products itemized in the Table on Page 55 of the Auditor's Report were withdrawn from the Ministry's supplies because they are irrelevant to their use in the hospitals.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Comply with GTB's delivery lead time; and
- Ensure that in case of delays in supply alternative suppliers approved by GTB are considered.

#### **24.42 Anomalies in Purchase of Medical and Imaging Consumables – Contract Number 155/14**

The FPBS should ensure that contract agreement is signed with the suppliers approved by the GTB. The FPBS should purchase medicines and medical supplies from the suppliers approved and contracted by GTB.

The Government Tender Board (GTB) in its meeting number 24/13 awarded the contract for the Provision of Medical Imaging Consumables to the supplier on 19/12/13. The contract was awarded for a total sum of AU\$254,858.35 (FJ\$443,231.91).

The audit noted that the FPBS did not enter into contract agreement with the supplier until 28/11/14. Due to the delay in signing the contract the supplier was not willing to supply the items at the tendered price. The audit noted that the FPBS procured the tendered items from the same supplier after taking 3 quotations.

The audit further noted that the price quoted by the supplier was usually higher compared to the tendered price. As a result of delay in signing the contract the FPBS overspent FJ\$3,266.56 to procure certain medical consumables from the supplier which was awarded the contract to supply the same items.

The findings show laxity of the Officers responsible in signing the contract agreement with the supplier. As a result the supplier overcharged the Ministry for the tendered items.

The committee was informed that this was supposed to be Contract No. 132/14. Again this is another case of Contract Agreement finalization that if delays in the finalization of the contracts and their stock level at the warehouse are at the critical level that will compromise our x-ray services in the hospitals. Some of these purchases were carried out while at the same time trying to finalize the contract with our Solicitor-General's Office and with our supplies.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that:

- The contract agreements are signed as soon as GTB approval is given; and
- Appropriate disciplinary action is taken against responsible officers for delay in signing the contract.

#### **24.43 Purchase and Supply of Vaccines – No Reconciliation for the Cost Sharing Scheme**

A cost sharing arrangement for purchase and supply of Cervarix, Synflorix and Rotarix vaccines was signed between the Ministry and the Australian International Aid Agency (AusAid) on 9/7/12. The purchase and supply of vaccine

will be implemented according to the terms and conditions of the Memorandum of Understanding signed between the Ministry and Fiji Health Sector Support Program (FHSSP) on 7/9/95.

Under the Memorandum of Understanding (MoU) signed on 7/9/95 between the Ministry and FHSSP, Glaxo Smith Kline New Zealand (GSK) will supply Cervarix, Synflorix and Rotarix vaccines to the Ministry. Under the MoU cost of the vaccines for the year 2014 will be shared 50% each between the Ministry and the FHSSP.

However the FHSSP in a letter dated 12/9/13 advised the Ministry that the cost for all vaccines purchased for the first half of the year (1/1/14 - 30/6/14) will be paid by FHSSP and the cost for all vaccines purchased for the second half of the year (1/7/14 – 31/12/14) will be paid by the Ministry.

The audit noted that under this arrangement the Ministry paid total of US\$755,265 or 53% of the total cost of the vaccines compared to US\$665,844 or 47% paid by FHSSP. The Ministry therefore overpaid the cost of vaccine by US\$44,711 compared to the 50% – 50% cost sharing arrangement for 2014.

The audit further noted that the Ministry did not maintain copies of the invoices for the payment made by FHSSP. In absence of the invoices the Ministry is not able determine the total cost of vaccine paid by the FHSSP and whether it is in accordance with the cost sharing arrangement.

The findings show the laxity of the Officers responsible in monitoring the total cost of vaccines purchased under the cost sharing arrangement. As a result the Ministry overpaid US\$44,711

The committee was informed that FPBS has noted the variations on the payment, however, the committee was advised that there was a pre-arrangement that was agreed by FPBS management with the donor upon the request that the Ministry to cover a portion of the payment as they are experiencing financial constraints. They were waiting for their new fiscal year to begin in July where they will pay additional amount to the supplier which is the amount paid by the Ministry, and this has been carried out.

The Committee agrees with the Auditor General's recommendations that the FPBS should ensure that:

- The amount over spent (US\$44,711) is recovered from FHSSP; and
- Copies of invoices for all payments made by FHSSP are obtained to monitor the percentage of cost paid for the vaccines by each party.

#### **24.44 No GTB Approval for change in Contract Sum for CTN 121/13 – Contract for the Provision of Essential Medicines**

All contracts should be made in accordance with the GTB's approval. Any variations in the contract sum should be made after the approval of the GTB.

The GTB awarded the contract number 121/13 for the provision of essential medicines to the supplier at a sum of FJ\$2,234,452.92 per year. The contract was for a term of 2 years commencing on 16/7/14.

However the Ministry signed the contract with the supplier for a total sum of \$1,550,346.22 instead of \$2,234,452.92.

The audit further noted that the FPBS did not write to GTB to advise and seek approval to amend the original contract sum from \$2,234,452.92 to \$1,550,346.22.

The findings indicate that the Ministry did not follow proper procedures when amending the contract price as approved by the GTB. Without GTB approval the changes in the contract price are unauthorized.

The committee was informed that this is noted by the Ministry and FPBS and the contract template now has been adjusted to reflect the contract sum that has been awarded by the Government Tender Board.

Also, just to note that the Ministry usually attach the schedule and the annexure which capture the total amount that have been awarded to the contract, the quantity and which products have been awarded to the contractor as our usual practice. However, the Ministry have complied with the requirements of the Auditor-General that now we have adjusted that clause to capture the total sum.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- GTB approval is sought for any variation in contract sum; and
- Appropriate disciplinary action is taken against those responsible for not performing their task.

#### **24.45 Delay in supply of Drugs and Consumables**

The maintenance of efficient Public Health Systems is largely dependent on having a robust supply chain management to eradicate delays and minimize stock outages.

Significant amount of drugs and consumables purchased and distributed by FPBS to Public Health facilities are procured from overseas suppliers. The FPBS has predetermined maximum and minimum stock levels for all drugs and consumables.



The review of the EPICOR System revealed that several orders of drugs and consumables placed with overseas Suppliers were yet to be supplied or were partially supplied as at 2/2/15. For example the FPBS ordered 25,000 units of Sodium Chloride 0.3% with Dextrose Injection 100ml bag via indent number MD85101-002884 on 28/11/13 which was to have been received on 30/4/14. However there was a delay of 278 days as the items were yet to be received by FPBS.

Similarly the FPBS ordered 115,000 units of Sodium Chloride 0.9% with Dextrose Injection 100ml bag via indent number MD85101-002594 on 2/9/13 which was to have been received on 30/2/14. However the FPBS was only supplied 112,640 and were yet to be provided the remaining 2,360 or 2% of the total order. Hence a total 368 days of delay was noted.

As at the date of audit on 2/2/15 total value of \$5,213,478.68 of drugs and consumables were yet to be received by FPBS.

Any delay by the Supplier in supplying the goods after the specified date of delivery in the agreement would entitle the Purchaser to deduct \$100 per day.

On several instances the suppliers did not supply the drugs and consumables ordered on expected delivery dates. However the FPBS did not deduct delay damages from these suppliers for payments made for purchases of other items from the same supplier. Refer to Table 24.37 for examples.

**Table 24.37: Penalties not deducted from Payments**

| Product  | Indent Number  | Total Cost of Indent FJ (\$) | Amount Paid (\$) |
|--|----------------|------------------------------|------------------|
| E2300AMAA-Hepatitis A Virus Antibody - 48 wells (HAV IgM - 48 wells) | MD85101-003370 | 1,467.87                     | US794.00         |
| MB02266A-Oxidase strips (50 strips/pkt)                              | MD85101-004074 | 1,355.60                     | AU2,700.50       |
| Streptokinase Injection 1.5mU  | MD85101-004020 | 21,164.89                    | US6,297.20       |
| Dextrose 10% inj 500ml Bag   | MD85101-003757 | 3,148.24                     | US9,063.00       |
| Bandage elastic adhesive BP 5cm x 5m (stretched)                     | MD85101-002652 | 11,369.68                    | US4,238.09       |
| Cold Cure Liquid Self Cure   | MD85101-004095 | 2,028.06                     | AU1,671.55       |
| Formatray Liquid 1ltr  | MD85101-004087 | 3,931.42                     | AU227.00         |
| TC Acrylic Trimming BURS Bullet Coarse Medium                        | MD85101-003930 | 666.15                       | NZ20,537.00      |
| Needle Disposable Sterile 23G x 32mm Packet of 101                   | MD85101-002932 | 192,520.27                   | US5,2250.00      |

The findings indicate that the FPBS did not monitor and follow up the orders placed with Suppliers.

Failure to invoke the delay damages may result in continued delays and increase the Ministry's commitments in future.

The committee was informed that the Auditor-General has captured the Report that came out from the Ministry's EPICOR Information System (EIS). The EPICOR currently cannot differentiate which purchase orders are on split

shipments, meaning they can arrive four times a year, however, in the EPICOR, it still captures the total volume that needs to be ordered even though Ministry have received the initial shipments so that is one of the challenges that the office have with their information system.

Also EPICOR cannot differentiate which orders are advanced orders for six months because of the six months lead time with our supplies. FPBS are really looking at their reporting system on how they can capture in differentiating which ones are split shipments purchase orders and also advanced order in the EPICOR Information System that we are currently using.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure to follow up all orders placed on a regular basis and charge delay damages for any delays in supply.

#### **24.46 Discrepancies in Stock Card Record and Actual Stock**

The storekeeper shall keep an inventory card for each inventory item to determine the value of items. Each card must provide the following details. (*Ministry of Health Finance Manual 2011 Section 8 [8.1.6]*)

- date and description of each item purchased;
- quantity purchased and cost price;
- quantity sold and at which price;
- quantity remaining and price; and
- expiry date.

The audit noted several instances of stock cards not updated when stocks were received or issued. Therefore the stocks recorded in the stock card did not match with actual stocks on the shelves.

The FPBS did not provide any reasons for the discrepancies in the actual stock and stock recorded in the stock cards.

The committee was informed that on the discrepancy records, there were a few issues that we have investigated that contributed to the discrepancies in stock card and the actual stock on the shelf. There was an HR (Human Resource) constraint that we had in the warehouse where the work demand was trying to push the medical supplies to the hospitals and compromising our process in the warehouse.

The Ministry has now given FBPS more Human Resources in the warehouse to improve some of our business processes. FBPS have also noted that there were errors of simple calculations in the posting of stocks in the stock cards. The team are carrying out regular training with our warehouse staff in ensuring proper posting and proper processes are carried out in stock control activities in the warehouse.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- The Stores Officers are properly supervised by Senior Officers;
- Stocks are properly recorded when received or issued; and
- Appropriate disciplinary action is taken against Officers for not updating the stock card.

#### **23.47 Open Contract for Supply of Essential Medicine – Contract Number 121/13**

The Government Tender Board (GTB) awarded the contract number 121/2013 for the provision of essential medicines to Supplier K and Supplier L at a sum of \$268,481.66 and \$1,058,471.90 per year respectively. The contract was for a term of two years commencing from 24/3/14 and 6/5/14 respectively.

The contract for supply of goods and services should state the contract sum.

The audit noted that the contract agreement did not state the contract sum for the supply of essential medicines. Due to the negligence and poor supervision by the Senior Officers in the Procurement Section the contract agreements did not state the total contract sum.

In absence of an approved contract amount the Ministry does not have any control over the price or the total value of medicines to be supplied by the suppliers.

The committee was informed that now the Ministry has included the total value awarded in their contracts.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that contract sum is stated in the contract agreement.

#### **24.48 Anomalies in Supply of Emergency and Accident Equipment – Contract Number CTN 84/13**

The Ministry invited written submissions from reputable organizations via the Fiji Procurement Office (FPO) on 28/5/13 for the provision of supply, installation and commissioning of Accident and Emergency Equipment for various hospitals. A total of 7 suppliers submitted their bids prior to the tender closing date of 13/6/13.

The Government Tender Board (GTB) awarded the phase 1 of the tender to Company F and Company G at a total cost of FJ\$766,166.72 and FJ\$95,455.40 respectively. On 23/1/14, the GTB approved that phase 2 be awarded to Company G at a total cost of US\$341,750 or FJ\$638,806.81. Final payment of 30% or US\$102,471 is made by the Ministry 7 days after the receipt of goods. (*Contract – Tender No. CTN 84/13 – Supply, Installation & Commissioning of Phase 2 Accident and Emergency Equipment for Fiji, Ministry of Health, Clause 4a - 1b*)

Company G was awarded the contract for supply, installation and commissioning of Accident and Emergency Equipment for various hospitals at a total cost of US\$341,750 or FJ\$638,806.81. The review of the payments made to the supplier revealed the following anomalies.

As per the contract agreement the supplier was to be paid in installments. The first payment FJ\$453,288.25 or 70% of the total cost was to be paid in advance. The second payment of FJ\$192,273.28 or 30% was to be made after the receipt of equipment.

The Ministry received the equipment in 2 separate consignments on 2/5/14 and 8/5/14. The audit noted that the second or the final payment of FJ\$192,273.28 was paid by the Ministry on 29/4/14 which was 9 days before the second consignment of equipment was received.

It is in the best interest of the government to ensure that final payment is made after successful installation and commissioning of the equipment.

However, the contract between the Ministry and Company G stated that the final payment of 30% or FJ\$192,273.28 to be made after 7 days from the receipt of the equipment and not after the successful installation and commissioning of the equipment.

The equipment delivered must be inspected within 7 working days following the delivery to reject the equipment. (*Contract – Tender No. CTN 84/13 – Supply, Installation & Commissioning of Phase 2 Accident and Emergency Equipment for Fiji, Ministry of Health*)

The equipment was received by the FPBS in two consignments on 2/5/14 and 8/5/14 respectively and was inspected on 26/5/14. The inspection of the equipment was carried out 12 working days after the date of receiving the last consignment.

The findings show that the Ministry did not comply with the contract agreements and laxity of the management to carry out their duties in reviewing the contract thoroughly. The Ministry's interests were not adequately protected.

It should be noted that the Committee is still yet to receive the Ministry's written response on this audit query as the entity is currently finalizing their findings.

The Committee concurs with the Auditor General's recommendations that the Ministry should ensure that:

- All payments are made as per the contract agreement;
- Where possible the final payment is made after installation and commissioning of the equipment in future; and
- Equipment is inspected within the stipulated timeline as per the contract agreement.

#### 24.49 Poor Monitoring and Supervision of Stores

If the quantity of the goods received is less than the quantity shown in the supplier's invoice or delivery note, the receiving officer shall furnish a report to make a claim against the supplier or carrier. (*Finance Manual 2011, 2.5.17*)

The Ministry ordered 18 units of XCN-5 Nebulizer Pumps from Supplier G on 10/2/14 for total cost of \$55,548. The Nebulizer Pump was supplied on 2/5/14 and 8/5/14 to the FPBS. The review of the purchase of the Neubulizer Pumps revealed the following anomalies.

The XCN-5 Nebulizer Pumps were verified and received by the Temporary Relieving Stores Officer at FPBS on 26/5/14. However the Temporary Relieving Stores Officer only recorded 16 units of XCN-5 Nebulizer Pump in the Taken on Charge Form.

The FPBS was not aware where the remaining 2 units of XCN-5 Nebulizer Pumps were.

The FPBS issues a dispatch docket for items dispatched out of the FPBS stores. A copy of the dispatch docket is retained in the dispatch book.

The FPBS was not able to provide the dispatch dockets for the issue of the Nebulizer Pumps. Hence the audit was not able to verify how many of the XCN-5 Nebulizer Pumps were dispatched and to whom the pumps were dispatched.

This finding shows poor controls in receiving and dispatching of stores at FPBS Warehouse. There is high risk of loss of stores from the warehouse.

The committee was informed that one of the current challenges that we have with our supplies for biomedical equipment's because they come in crates, boxes. FBPS staff cannot open these boxes until the suppliers come and open these boxes at the installation site because if the staff opens the box ordered, the warranty value that we already agreed with the supplier can be nullified because we have exposed the equipment's to the environment without their presence. However, the office is now trying to find another way on how we will need to improve this process in the receiving of biomedical equipment's.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Adequate controls are put in place at the warehouse for receiving and issue of stores; and
- Investigate the missing 2 units of XCN-5 Nebulizer Pump and take appropriate action.

## 24.50 Losses Due to Tender Bids in Different Currencies

Bidding on the same currency avoids questions like what conversion rate to use when converting different currencies to a common currency. Comparison between bidders will be easily made when they are bidding in common currency.

The audit noted that while drafting tender documents for procurement of pharmaceutical items or biomedical equipment the Procurement Unit at FPBS allowed bidders to quote prices in any currency of their choice. The following contracts were noted to have different currencies. Refer to Table 24.39 for details.

**Table 24.39: Details of Contracts with Different Currency**

| Contract Details  | GTB Approved Amount FJ(\$)<br>(A) | Amount As Per the Agreements<br>(S) | Suppliers Total Invoice Amount<br>(S) | Total Sum Paid In FJ(\$)<br>(B) | Loss FJ(\$)<br>(A)-(B) |
|---|-----------------------------------|-------------------------------------|---------------------------------------|---------------------------------|------------------------|
| CTN 3/14 – Supply, Installation and Commissioning of New Operating Theatre Equipment                | 220,144.60                        | No Agreement signed as at 16/1/15   | NZD140,562.33                         | 220,615.01                      | 470.41                 |
| CTN 3/14 – Supply, Installation and Commissioning of New Operating Theatre Equipment                | 1,506,205.19                      | FJ1,506,205.19                      | USD797,535.65                         | 1,522,547                       | 16,341.81              |
| CTN 3/14 – Contract for Supply, Installation and Commissioning of New Operating Theatre Equipment   | 118,887.06                        | AU70,101.80                         | AU70,101.80                           | 125,063.31                      | 6,176.25               |
| CTN 42/14 - Supply, Installation and Commissioning of Radiology Equipment                           | 1,225,328.65                      | No Agreement signed as at 16/1/15   | USD663,638                            | 1,282,392.27                    | 57,063.62              |
| CTN 42/14 - Supply, Installation and Commissioning of Radiology Equipment                           | 402,511.08                        | USD218,000                          | USD218,000                            | 421,256.04                      | 18,744.96              |
| CTN 84/14 – Contract for Supply, Installation and Commissioning of Accident and Emergency Equipment | 638,806.81                        | USD341,570                          | USD341,570                            | 645,541.53                      | 6,734.72               |
| <b>Total</b>  |                                   |                                     |                                       |                                 | <b>105,531.77</b>      |

The Procurement Unit at FPBS was unnecessarily creating foreign exchange risk and complexity in the procurement process.

The finding indicates that the FPBS did not consider foreign currency risks when purchasing from international suppliers. As a result public funds were lost through foreign exchange losses.

The committee was informed that globally, for international commerce transactions, the most used currencies are the US dollars, Euro dollars, British pounds and the Japanese yens. Majority of our supplies are overseas-based and would use these currencies for their bidding. It is quite a challenge. We did attempt four years ago for bidders to bid in Fiji dollars, unfortunately they were not able to do that because of the variations in the currencies.

The other options were when FBPS approached the Ministry of Economy which is hedging, and that is a discussion or subject with the Ministry of Economy to advise the Ministry. Why the Ministry has asked for hedging is because they raise purchase orders and payments are usually carried out six or seven months after the initial purchase order has been raised. Between those periods, there are a lot of variations; however, the office is mindful of these variations in the currency.

The Committee concurs with the Auditor General's recommendations that the Ministry should request all suppliers to bid in Fiji dollar and the contract to state the contract sum in Fiji dollar to avoid foreign currency loss and make price comparison easier and fairer to all bidders.

#### **24.51 Delay in Contract Signing**

A contract establishes critical elements of the agreement such as the scope of work, contract amount, time for completion, circumstances for acceptable delays, insurance requirements, dispute handling, indemnification and responsibilities of each party.

The FPBS engaged with several suppliers for supply of medical supplies and equipment during the year 2014. The audit reviewed the contract agreement of several suppliers of medical supplies and equipment with an aggregate value of \$11,562,810.57.

The audit noted several instances of either contract agreements not signed at all between the FPBS and the supplier as of the date of audit on 12/1/15 or contract agreements were signed after medical supplies and equipment was received by the FPBS.

The audit findings show laxity on the part of the senior officials for not having the contract agreement with suppliers. In the absence of a contract agreement the supplier may not fulfill its obligation as expected and disputes may arise.

The committee was informed that one of the main causes of the delay in contract signing is our process with the Solicitor-General in vetting the contract and also trying to get the supplies to agree with some of the clauses that are being brought forward by the Solicitor-General to protect the interest of the Government in engaging any overseas supplies in this process.

As mentioned, FBPS are regularly meeting with the Solicitor-General on how we can fasten this process. It was mentioned that in one of the Auditor-General's Report that want the length of waiting for the contract to be signed even took right to 11 months, so the office is working very hard on trying to reduce this period.

The Committee agrees with the Auditor General's recommendations that the Ministry should take disciplinary action against officers responsible for not having

contract agreements with the suppliers for supply of medical supplies and equipment.

#### **24.52 User Guide and Other Documents not provided by the Supplier -Contract Number 3/14**

Government Tender Board awarded the contract number 3/14 to the supplier on 15/4/14 for supply, installation and commissioning of Operating Theatre Equipment for CWM Hospital. The total cost of the project as per the agreement was \$1,506,205.19.

The supplier shall provide a copy of the Operator Manual, Service Manual, and Operator Guide (written and soft copy), Spare Parts List and up to date catalogues and or system information of current items and prices to be kept on file by Fiji Pharmaceutical and Biomedical Service's (FPBS) Biomedical Section. (*Agreement between the Ministry and Supplier F, Clause 15*)

However the supplier did not provide written and soft copy of Spare Parts List and an up to date catalogues and or system information of current items and prices.

In addition the supplier only provided soft copies of Operator Manual, Service Manual, and Operator Guide which were at the respective hospitals. The written copies of Operator Manual, Service Manual, and Operator Guide were not provided by the supplier.

The soft copies of the Operator Manual, Service Manual, and Operator Guide were not made available for audit review despite several requests. Hence the audit could not substantiate whether the soft copies of these documents were actually provided by the supplier.

The findings show that the Ministry did not properly monitor that the supplier fulfills its requirements under the contract agreement. As a result Operator Manual, Service Manual, and Operator Guide (written and soft copy), Spare Parts List and up to date catalogues and or system information were not provided by the supplier to the Ministry.

In absence of this documents/information the Ministry may face difficulties in service and maintenance of this equipment.

The committee was advised that this has been acknowledged by the Ministry and FPBS. The Ministry is now ensuring their check-list in terms of all the requirements for medical equipment's supplied, which are not only the equipment's themselves but also the User Guide and the technical information documentation that need to be supported when there is supply of equipment's.



The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that Operator Manual, Service Manual, and Operator Guide (written and soft copy), Spare Parts List and up to date catalogues and or system information are obtained from the supplier.

#### **24.53 Poor Inventory Management**

The Fiji Pharmaceutical and Biomedical Services (FPBS) is responsible for the purchase of medicines and medical supplies for both public and private sector. The FPBS currently uses both stock cards and EPICOR Software to manage and maintain inventory records electronically.

The review of FPBS inventory system revealed the following anomalies:

- Accounting records may be destroyed after a period of 6 years provided that these records are not required for audit purposes or have already been audited. (*Ministry of Health Finance Manual 2011, Section 18.1.4*)

Many instances were noted where the warehouse Supervisors did not provide old stock cards of various drugs and consumables for audit verification.

As a result the audit could not substantiate the stock balances of drugs and consumables as neither the old stock cards were available nor the closing balance carried forward to the new card.

- The Ministry of Health will support the introduction and maintenance of systematic, practical and accurate procedures for the estimation and regular reporting of medicine consumption at all levels so that the FPBS can use this data in the compilation of correct estimates for national medicine procurement needs. (*The National Medicinal Products Policy of the Republic of Fiji Islands, 13 section 6.2.1*)

However several instances were noted where the physical stock count of the drugs and consumables varied from the EPICOR System balances.

The audit finding indicates poor control over drugs and consumable stocks at FPBS stores. There is risk of loss of stocks through theft. In addition the FPBS may not be able to properly monitor the stock levels and reorder point if the stock record in the EPICOR System is incorrectly maintained.

The committee was informed that now FPBS has a system of keeping old stock-cards in the warehouse and the review of stock levels is carried out on a yearly basis.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- Proper controls over the drugs and consumable stock is implemented; and
- Periodic stock count is undertaken and any variance is investigated and reconciled with the EPICOR System.

#### **24.54 Variance between EPICOR System and Actual Stock Take**

The Ministry of Health will strive to improve and standardize inventory control procedures at all levels of the public drug supply system. (*The National Medicinal Products Policy of the Republic of Fiji Islands, Section 6.2*)

Proper record keeping of drugs and consumables should be maintained by FPBS at all times.

The EPICOR System is the Inventory Management Software utilized by FPBS to record its movement of stock. This includes entering of stock as it is received, deliveries made to Hospitals and Health

Centre's, orders placed by Hospitals and Health Centre's, orders placed by FPBS to its suppliers and other stock related activities. At any point in time, the physical stock should coincide with the system stock records.

The review of annual stock take report for the year ending 31 December 2014 revealed variances between the balance as per the EPICOR System and the balance of actual stock for numerous drugs and consumables. The audit noted that the stock balance for several drugs and consumables were either overstated or understated in the EPICOR System.

The stock take report also revealed that several drugs and consumables were not recorded in the EPICOR System. Therefore the quantity recorded in the EPICOR System was understated compared to the actual stock balance.

The FPBS did not update the system on a timely basis resulting in significant variances between the actual stocks on hand and stock balance as per the EPICOR System. There is a high risk of misappropriation or theft of stores. This audit finding was also reported in last year's audit.

The committee was advised that currently, the Ministry have a consultant with FBPS at the moment who is reviewing thier Warehouse Operation Management, together with it is an Information System that will help them to alleviate the current issues that have been frequently reported in the Auditor-General's Report in the previous years. The Ministry and FPBS acknowledge that there is a variation in the stock count in the information system and their physical stock.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Investigate the variances noted and take appropriate remedial action; and
- Take disciplinary action against Officers responsible for recording stocks.

#### 24.55 Increases in the Value of Expired Stock

The Ministry of Health will strive to improve and standardize inventory control procedures at all levels of the public drug supply system. (*The National Medicinal Products Policy of the Republic of Fiji Islands, 13 section 6.2*)

It is difficult to estimate the exact amount of drugs and consumable usage in the health system annually. An attempt to fully eliminate expiring drugs cost to zero may also put the Ministry in a risk of not having appropriate supply of drugs and consumables when needed.

The audit noted that drugs and consumables costing \$717,206.93 expired as at 31/12/14 at FPBS alone. Refer to Table 24.42 for value of expired drugs for the last 3 years.

**Table 24.42: Expired Drugs as at 31/12/14**

| Month        | Expired Stock<br>2014<br>(\$) | Expired Stock<br>2013<br>(\$) | Expired Stock<br>2012<br>(\$) |
|--------------|-------------------------------|-------------------------------|-------------------------------|
| January      | 43,528.49                     | 24,942.62                     | 24,512.84                     |
| February     | 60,898.42                     | 54,751.33                     | 255,781.10                    |
| March        | 147,553.59                    | 65,176.94                     | 47,031.60                     |
| April        | 8,771.37                      | 50,086.08                     | 17,761.15                     |
| May          | 50,780.73                     | 8,431.81                      | 98,185.94                     |
| June         | 25,111.55                     | 23,621.40                     | 46,156.48                     |
| July         | 30,817.08                     | 35,771.75                     | 13,119.79                     |
| August       | 16,314.44                     | 19,943.34                     | 19,320.14                     |
| September    | 123,694.91                    | 22,509.25                     | 21,774.51                     |
| October      | 64,507.35                     | 15,422.79                     | 49,560.67                     |
| November     | 141,387.78                    | 12,545.84                     | 6,676.08                      |
| December     | 3,841.22                      | 36,124.74                     | 35,765.56                     |
| <b>Total</b> | <b>717,206.93</b>             | <b>369,327.89</b>             | <b>635,645.86</b>             |

The total cost of expired drugs and consumables could be far more than the amount reported as the FPBS did not have records of expired drugs and consumables from all hospitals and health centers in Fiji.

The audit also noted the cost of expired drugs at the FPBS increased by \$347,879.04 or 94.2% in 2014 compared to total expired drugs and consumable of \$369,327.89 in 2013.

Due to poor inventory management by the FPBS significant value of drugs and consumables expired resulting in waste of public funds.

The committee was informed that expiry of Medical Goods especially Consumables: it is always unavoidable because it has a shelf-life and use after shelf-life can be a risk to the services itself. However, the Ministry always set a target to keep the expiry to an acceptable level. Currently, FBPS uses a 5 percent of the expenditure or budget as per the World Health Organization's reference. For 2014, wastage rate was 1.9 percent. However, FBPS are also being mindful that we try to ensure that there is a reduction in the wastage but we also do not want to lead in a stock-out situation because of the logistic challenges that we have currently experienced with our supplies.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Review the reorder levels for all drugs and consumables to avoid losses due to expired drugs and consumables;
- Implement proper inventory management system to reduce the cost of expired drugs and consumables to WHO standards; and
- Request all hospitals and health centers to submit annual returns of expired drugs and consumables to the FPBS.

#### **24.56 Nil Stock for Drugs and Consumables**

The Ministry of Health will strive to improve and standardize inventory control procedures at all levels of the public drug supply system. (*The National Medicinal Products Policy of the Republic of Fiji Islands, 13 section 6.2*)

The Ministry's EPICOR System indicates when a particular drug or consumables reaches its minimal level. Once the minimum stock is reached the stock controller needs to ensure that new orders are placed immediately to ensure adequate supply of drugs and consumables are available at all times.

Scrutiny of the EPICOR System on 14/1/15 revealed that several drugs and consumables were out of stock at the FPBS.

In addition the EPICOR System did not state the date out of stock drug and consumable were reordered. Hence the audit could not substantiate whether the orders were placed before the items reached minimum or nil balance.

The finding shows poor inventory management at the FPBS. Non availability of essential pharmaceutical supplies may place patients' life and health at risk.

The committee was advised that the Current Information System at FPBS is that, EPICOR Information is a challenge with the variation of stock level in EPICOR and physical stock as reported in Item 24.54.

As mentioned in 24.54, currently, FBPS have a consultant who is reviewing our process. Currently, what the Ministry is doing is even though there are variations,

the office have a verification team that continues to ensure double checking of the stock information in our EPICOR and also the physical stock before the Ministry makes decisions for reordering or not to order.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that drugs and consumables are ordered at minimum reorder point to avoid 'run outs'.

#### **24.57 Stocks Below Predetermined Minimum Level**

The Ministry of Health will strive to improve and standardize inventory control procedures at all levels of the public drug supply system. (*The National Medicinal Products Policy of the Republic of Fiji Islands, Section 6.2*)

The Ministry's EPICOR System indicates when a particular drug or consumables reaches its minimal level. Once the minimum stock is reached the stock controller needs to ensure that new orders are placed immediately to ensure adequate supply of drugs and consumables are available at all times.

The review of the EPICOR System as at 14/1/15 revealed that several drugs and consumables on hand were below the predetermined minimum stock levels.

However the FPBS in its EPICOR System did not have the dates these drugs and consumables were reordered. Hence, the audit cannot substantiate whether these drugs and consumables were reordered. The Ministry did not properly monitor the stock levels and reorder drugs and consumables on time. This may lead to drugs and consumables shortage in hospitals and health centres if supplies are not reordered and received on time.

The committee was informed that all standard items have a pre-determined maximum where the maximum stock levels should be kept in the warehouse at a minimum level which is the lowest stock level to be in the warehouse where reordering will need to be decided.

FPBS was in the process of reviewing their minimum and maximum level for the warehouse. The officials mentioned that "When we had this report where we have increased some of our minimum level and hence there were a lot of items that were below the minimum level, however, not all products that are below the minimum level need to be reordered. We do consultations with the users, whether we need to re-order this or consult with them on the reasons, whether they are still utilizing the products"

Currently, FBPS have a consultant who is also reviewing our business processes that include our reordering process and also our information system.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Investigate why drugs and consumables below the predetermined minimum stock level were not reordered; and
- Take appropriate action to ensure appropriate level of drugs and consumables are available at all times.

#### **24.58 Stocks in Excess of Predetermined Maximum Level**

The Ministry of Health will strive to improve and standardize inventory control procedures at all levels of the public drug supply system.<sup>56</sup> Proper stock management ensures that stock level does not exceed maximum stock level.

The FPBS has predetermined maximum stock levels for all drugs and consumables. The review of the EPICOR System as at 14/1/15 revealed that several drugs and consumables were available in excess of the required maximum stock levels.

The audit noted that several of these drugs and consumables were significantly overstocked when compared to its maximum stock levels. For example the predetermined maximum stock level for Propranolol tablets 40mg was 550,000 units only at any point in time. However the stock on hand as at 14/1/15 was 737,600 units, which were 187,600 units or 34.11% more than the predetermined maximum stock level.

Similarly the predetermined maximum stock level for Chlorpromazine tablets 50mg was 32,000 units only. However the stock on hand as at 14/1/15 was 105,500 units which was 73,500 units or 230% more than the predetermined maximum stock level.

The audit also noted that the total cost of drugs and consumables in excess of the predetermined maximum stock levels was \$9,906,174.96 as at 14/1/15.

The audit further noted that several drugs and consumables were reordered despite the stock levels were above the maximum stock levels.

The irregularities indicate poor inventory management and reordering by the FPBS which led to the accumulation of excessive drugs and consumable stocks. As a result significant amount of public funds are tied up with excessive stocks and may result in loss of public funds if these drugs and consumables were not utilized before its expiry.

The committee was informed that FBPS is in the process of reviewing our maximum level where some of our maximum levels have been reduced and our current existing stock level in 2014 when the report was taken, it was higher than the maximum level. The Ministry is reviewing that process and also having a consultant in the warehouse reviewing our information system.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Ensure that the FPBS does not hold drugs and consumables stock in excess of the predetermined maximum stock levels; and
- Investigate over stocking of drugs and consumables and take disciplinary action against those responsible for over purchasing.

## **Section 25: Department of Housing**

### **Role and Responsibilities**

The Department of Housing is responsible in the formulation and implementation of housing and integration of programmes to eradicate poverty. It is also responsible for the administering of Government Grants to social housing providers such as Public Rental Board, Housing Authority and Housing Assistance Relief Fund including the implementation of National Housing policy.

### **PART A: FINANCIAL STATEMENTS**

#### **25.1 Audit Opinion**

The audit of the 2014 accounts of the Department of Housing resulted in the issue of an unqualified audit report.

#### **25.2 Statement of Receipts and Expenditure**

The Department collected revenue amounting to \$22,867 and incurred expenditure totaling \$11,483,824 in 2014.

#### **25.3 Appropriation Statement**

Total revenue decreased by \$147,416 or 86.6% in 2014 compared to 2013 due to decrease in miscellaneous revenue.

Total expenditure decreased by \$3,986,146 or 25.8% in 2014 compared to 2013 due to:

- ✓ decrease in Travel and Communication costs;
- ✓ decrease in Maintenance and Operations costs;
- ✓ decrease in Purchase of Goods and Services related costs;
- ✓ decrease in Operating Grants and Transfers costs;
- ✓ decrease in Capital Grants and Transfers costs.

#### **25.4 Trust Fund Account Statement of Receipts and Payments**

The City Wide Main Trust Fund had a credit balance of \$7,269 for the year 2014 compared to a credit balance of \$7,269 in the year 2013. Refer Table 25.3 for receipts and payments for the year ended 31/12/14.



**Table 25.3: Trust Account Statement of Receipts & Payments for 2014**

| Particulars                              | 2014<br>(\$) | 2013<br>(\$)   |
|--|--------------|----------------|
| <b>RECEIPTS</b>                          |              |                |
| Main Trust Fund Receipts                 | ---          | 243,655        |
| <b>Total Receipts</b>                    | ---          | <b>243,655</b> |
| <b>PAYMENTS</b>                          |              |                |
| Main Trust Fund Payments                 | ---          | 235,321        |
| <b>Total Payments</b>                    | ---          | <b>235,321</b> |
| Net Surplus                              | ---          | 8,334          |
| Balance as at 1 January                  | 7,269        | (1,065)        |
| <b>Closing Balance as at 31 December</b> | <b>7,269</b> | <b>7,269</b>   |

## PART B: FINANCIAL STATEMENTS

### 25.5 City Wide Trust Fund Unsubstantiated Variance

Each month the trust account must be balanced and reconciled with the trust bank account. The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer. Un-reconciled items must be investigated and resolved promptly. (Finance Instructions 2010 Section 58[3])

The Department of Housing's main Trust Fund account had a balance of \$7,269.30 in FMIS general ledger while the bank statement had a balance of \$170.85 as at 31/12/14. The Department did not prepare the City Wide Trust Fund account reconciliation for 2014. Hence the main Trust Fund account balance as at 31/12/14 was not reconciled.

The Department had an un-reconciled variance of \$7,098.45 between the main Trust Fund account general ledger and the bank statement balance as at 31/12/14. Refer to Table 25.4 below for details.

**Table 25.4: Variances in City Wide Trust Fund Account**

| Balance As Per<br>Trust Fund Bank<br>Statement<br>(\$) | Balance As Per<br>Trust Fund Ledger<br>(FMIS)<br>(\$) | Unsubstantiated<br>Variance<br>(\$) |
|--|---|-------------------------------------|
| 170.85   | 7,269.30  | 7,098.45                            |

Furthermore, the audit review of the Trust Fund Bank Statement revealed that there was a withdrawal of \$7,000 on 20/06/14 through a counter cheque number 16276. However, the Ministry failed to provide the supporting documents to substantiate the withdrawal of \$7,000 from the trust fund account.

The above finding indicates laxity of the officers responsible for not performing monthly reconciliation of the main trust fund account. As a result audit was not able to ascertain that all receipts and payments had been accurately accounted for in the general ledger.

The committee was informed that the City Wide Trust Fund is the Trust Fund set aside through the approval of the Ministry of Finance for the funds that was given by the Asian Coalition of Housing Rights whereby the Government, the Ministry, the Councils and the People's Community Network (PCN) will undertake incremental upgrading for the 15 Municipal Councils throughout Fiji.

The total grant that was given in 2013 was \$500,000. This is the remaining balance in the Trust Fund.

The reconciliation was done, that \$7,269 is an amount that was paid to the PCN. It was actually effected without the consent of the Ministry and the Ministry has taken appropriate action. We have written to the PCN to repay and remit to Government that amount.

The Ministry has written to PCN for refund the extra \$7,269 and to be repaid by 30<sup>th</sup> April, 2017

The Committee agreed with the Auditor General's recommendations that:

- The Department should ensure that the trust fund account bank balance is reconciled with the Trust Fund FMIS ledger balance on a monthly basis.
- The Permanent Secretary should instigate an investigation on the withdrawal of \$7,000 from the City Wide Trust Fund Account and take appropriate action.

## 25.6 Revolving Fund Account

Within 3 days of receiving the monthly general ledger reports from the Ministry of Finance, the Accounts Officer shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement. (Finance Manual 2013 – Ministry of Local Government, Housing and Environment Section 16.3.3)

The audit verification of the Department of Housing Revolving Funds Account (RFA) reconciliation revealed the following RFA account had credit balances as at 31/12/14. Refer to Table 25.5 for details.

**Table 25.5: RFA Account with Credit Balances**

| Account           | Description  | Amount (\$) |
|-------------------|--|-------------|
| 12310123999560203 | Accounts Receivable Individuals-Housing Department | 46,035.98   |

As a result, the audit could not ascertain the accuracy of the RFA balances as at 31/12/14.

The committee was advised the Department had investigated and rectified the credit balance of \$46,035.98 in the following year of January 2015. The last internal audit conducted for the Ministry of Local Government and Department of Housing was in the second quarter of the 2016-2017 financial year.

The Committee agreed with the Auditor General's recommendations that:

- The Department should ensure that the credit balance is investigated and rectified.
- The Permanent Secretary should ensure that appropriate disciplinary action is taken against responsible officers.

## **25.7 Anomalies in Contract for Cuvu Squatter Upgrading Project**

Government Tender Board (GTB) awarded the contract for upgrading of Cuvu squatter settlement to the Contractor on 7/8/14 for a total contract sum of \$3,660,577.12 (VIP) inclusive of 10% contingency sum for a period of one year. The contract works included mobilization, site works, storm water drainage, road works, concrete headwall and wing walls, water supply and sewer reticulation.

The review of the schedule of prices included in the contract revealed the following anomalies.

- The schedule of prices to a contract shall provide a detailed breakdown of all the works required to be carried by the contractor.
- The schedule of prices under item 1.2 of the contract agreement included temporary works costing \$25,000. The contract agreement did not state the detailed breakdown of temporary works which were to be carried out by the Contractor. Hence the audit could not substantiate how the \$25,000 for temporary works was determined in the schedule of prices to the contract.
- The Solicitor General's Office when vetting the contract stated that the site office is part of the Contractors responsibility and the cost of the site office to be borne by the Contractor.

However \$55,000 for site office was still included in the schedule of prices under item 1.8 of the contract agreement. The Department did not provide the correspondence from the Solicitor-General's Office for the temporary works and the inclusion of the \$55,000 for the cost of the site office.

The findings indicate the laxity of Director for Housing in protecting the government's interest. As a result funds allocated by the Department for temporary work and for the site office were not justified.

The committee was informed that The Ministry had written to the Office of the Solicitor-General on 16th July, 2015 for confirmation of amendment of Clauses 1.2, 1.4 and 1.8 of the contract regarding civil work. The contract thus complied with the SG's Office's advice thereafter. It was further noted that the office site to be used by the Contractor -the ergonomics. Pursuant to the contract, at the completion of the project, the site and all the ergonomics will be returned to the principal, in this case, the Ministry.

The Committee agreed with the Auditor General's recommendations that the Department should ensure that:

- A detailed breakdown of scope of works is provided for the temporary works costing \$25,000;
- The inclusion of \$55,000 for cost of site office is investigated and take appropriate disciplinary action for not adhering to advice from the Solicitor General's Office; and
- Appropriate disciplinary action is taken against responsible officers.

## 25.8 Anomalies in the Lagilagi Housing Development Project

The Department entered into an agreement with a Non-Government Organization (NGO) on 24/1/14 for the Construction of Lagilagi Housing Project at Jittu State, Raiwaqa. The project is for a period of two years commencing on 31/12/13 and is bound to be completed on 31/12/15

### 25.8.1 Re-engagement of Phase 1.3 Contractor for Phase 2

The Cabinet in its 12<sup>th</sup> meeting on 24/9/13 approved to allow the completion of Phase 1.3 of the Lagilagi Housing Project at Jittu State, Raiwaqa only by the existing Contractor.

The Department paid total of \$3,131,346.52 to the NGO during 2014 to be paid to the Contractor for Phase 1.3 and Phase 2 of the Lagilagi Housing Development Program/project. Refer to Table 25.6 for details of funds disbursed by the Department to the NGO for works completed by the Contractor.

**Table 25.6: Breakdown of Funds Disbursed by the Department to the NGO for Payment to the Contractor**

| Payment Date | Amount Paid (\$)    | Claim Number | Project Phase |
|--------------|---------------------|--------------|---------------|
| 3/3/14       | 1,686,616.05        | 1            | 1.3           |
|              |                     | 1            | 2.0           |
| 4/7/14       | 1,444,730.47        | 2            | 1.3           |
|              |                     | 3            | 1.3           |
|              |                     | 4            | 1.3           |
| <b>Total</b> | <b>3,131,346.52</b> |              |               |

The audit noted that the total payment of \$3,131,346.52 to the NGO by the Department included \$691,322.44 for works carried out by the Contractor on Phase 2 of the project despite the Cabinet did not approve the Contractor to work on Phase 2 of the project.

The finding indicates that the Department did not adhere to the Cabinet decision. The payment made was not properly authorized.

The committee was informed that Cabinet Decision No. 263 that was made in the Cabinet meeting of 24th September, 2013 and approved through the redeployment process the allocation of funding grant of \$2,013,140 for 2013 and for the Commencement of Fees for the Lagilagi Housing Development

The Committee agreed with the Auditor General's recommendations that the Department should ensure that:

- Cabinet decision are adhered to at all times;
- Necessary guidance is provided to the NGO to follow where public funds are involved; and
- The matter is investigated and appropriate disciplinary action is taken against Officers responsible.

#### **25.8.2 Funds Given to the NGO not used for the Intended Purpose**

The agreement between the Department and the NGO outlines that the funds paid by the Department were to be used for the Lagilagi Housing Project.

The Department paid a sum of \$701,500 as first installment to NGO as per the agreement between the Department and the NGO during the year 2013.

The audit noted that the NGO used \$125,491.26 or 17.89% of the \$701,500 for payment of its operational and staff costs. The audit also noted that the agreement between the Department and the NGO dated 24/1/14 did not include any provision for the NGO to use government funds to pay for its operational and staff costs.

The audit further noted that the NGO used \$68,666.70 or 9.8% of the first installment of \$701,500 for the Lomaivuna Farmers Project. In addition, the NGO did not obtain approval from the Department to utilize the funds for the Lomaivuna Farmers project.

The NGO incorrectly used government funds to pay for its staff salaries, operational costs and Lomaivuna Farmers Project. Hence government funds were not used for the purpose it was given for to the NGO.

The committee was informed that the Department of Housing had noted that the PCN utilised \$125,491.26 for payment of its operational and staff costs and also expended \$68,666 for the Lomaivuna Farmers Project, respectively on 31/12/13.

The Lomaivuna Farmers Project, the amount of \$68,000 was actually a Ministerial undertaking with the PCN upon which the Government has to reimburse PCN that amount after paying the Lomaivuna Farmers Project and the \$125,000 is part of the Cabinet Decision.

The amount that was mentioned for NGO used \$125,491.26 was basically to pay for the consultancy fees for the Lagilagi Housing Project. The Ministry has written

to them and there are few issues that the office will need to clarify with PCN with regards to the breakdown of that \$125,000.

Once both parties agree that is PCN and the Ministry, then we will go ahead with that, taking note of that "set off" approach project. However, in terms of the Government reimbursing PCN with \$68,666.70 was that, in the initial inception of the Lomaivuna Squatter Relocation Project, they had used their community members' savings equivalent to that amount, with the understanding that the Government will reimburse.

By way of background, this project was the Prime Minister's initiative, way back in 2008 when he visited the Jittu Estate and walked through the settlements. He then advised his Office to do a quick research on the community needs of the settlements. So out of the survey, there were three basic issues; one is the security of tenure; proper education of the children living in the settlements and lastly, improvement of housing conditions. So on that one, the Ministry prepared the Cabinet Paper which was endorsed where funding is to be provided by Government to a tune of \$12 million for the construction of 152 housing units, basically for squatters in the Lagilagi Housing Project at Jittu Estate.

The Committee agreed with the Auditor General's recommendations that the Department should recover the amount used by the NGO to pay for its operational and staff costs and Lomaivuna Farmers Project.

## **25.9 Delay in Completion of Construction Works**

The Project Implementation Plan must be strictly adhered to inform, substance and time schedule except where variations have been agreed to by the Department. The completion date for the project was 31/12/14. (Agreement between the Ministry and Nadi Town Council Clause 6.5)

The audit noted that the Nadi Town Council was yet to complete the construction of the Disaster Rehabilitation Shelter for the Settlement. The project was delayed by 3 months as at the date of audit on 3/3/15 and was only 90% complete. The works outstanding were the installation of louver blades, plumbing works, installation of the toilets facilities and exterior painting.

The Nadi Town Council as at 27/2/14 had a balance of \$3,402.69 in the Disaster Rehabilitation Project account. The project was delayed due to the non-availability of labour for the construction works. The Nadi Town Council was considering paying for the labour cost in order to complete the construction works.

The findings indicate poor project management by the Department. As a result the project was not completed on time.

The committee was informed that the delay was mainly attributed to the delay in supplies and this project was only budgeted for \$100,000, incremental upgrading

but because of the pending works, the sanitary and the walkway, with the increase in price over the last two years, that resulted in the increase. The works was reported “incomplete” had been completed in August 2015, following the joint meeting between the Ministry and the Nadi Town Council in 2014. The Council was advised to submit additional requests for additional funding of \$8,430 for the completion of the sanitary and overhead walkway, linking the church and the Disaster Evacuation Centre and this has been done in 2015.

Moving on, the Department of Housing has been directed to complete the sanitary and overhead walkway, linking the church by 31st July, 2017. To facilitate the completion of the Disaster Evacuation Centre, the Department of Housing raised a Minute for the Permanent Secretary’s approval for additional funding of \$8,430 for the completion of the remaining works of the project by 31st July this 2017.

The Committee agreed with the Auditor General’s recommendations that the Department should ensure that:

- Adequate supervision and monitoring of project is carried out by the Council; and
- Appropriate disciplinary action is taken against responsible officers.

#### 25.10 Vuci Road Drainage Works

The Department entered into an agreement with the Nausori Town Council on 12/1/14 for the Construction of a new drainage system project which included cleaning of the existing drains and construction of new V drains at Vuci Settlement costing \$100,000. The project was to commence from January 2014 and conclude in December 2014. The Department paid a total of \$70,000 to the Council on 23/06/14 and the remainder of the \$30,000 was to be paid on the completion of the project.

The Council entered into an agreement with a Contractor to carry out the construction and upgrade of earth drains to v-drains and rock-line in Vuci area. The contractor was required to commence work on 12/02/15 and complete the required works by 17/03/15. Refer to Table 25.7 for the program implementation work plan as per the agreement:

**Table 25.7: Project Implementation Work Plan**

| Description / Activity              | Timeline            |
|-------------------------------------|---------------------|
| Establishment                       | 12/02/15            |
| Clear and remove Existing Drain     | 13/02/15 – 23/02/15 |
| Prepare Base and install V-drain    | 16/02/15 – 6/03/15  |
| Construct Rock-line                 | 18/02/15 – 14/03/15 |
| Clear and remove all waste material | 16/03/15            |
| De establishment                    | 17/03/15            |

During the site visit of the project on 10/3/15 the audit noted that the contractor was not performing the works as per the agreed program implementation work plan. As per the work plan the contractor should have installed the v-drains and begun the construction of rock-line work. However, at the time of site visit on 10/3/15 the audit noted that the contractor was in the process of clearing the existing drain and preparing the base for the installation of v-drains. The project work was delayed by 2 weeks.

The finding indicates poor project management and supervision by the project engineers of the Nausori Town Council and the Department's Project Supervisor which resulted in delay of works carried out by the Contractor.

The committee was informed that the overall length of drainage upgrading works is about 720 metres. Work was completed with the v-drain and rock lining, it is about 334 metres. Furthermore, the drain measuring 78 metres have already positioned accordingly by pending rock lining works to be done. Also, the project had been re-advertised on 25<sup>th</sup> February, 2017 and the tender process is currently in progress.

The Committee agreed with the Auditor General's recommendations that the Department should ensure that:

- Adequate supervision and monitoring of project is carried out by the Council and
- Appropriate disciplinary action is taken against responsible officers.



## **Section 26: Ministry of Local Government, Urban Development and Environment**

### **Role and Responsibilities**

The Ministry of Local Government, Urban Development and Environment have three main Departments under its Portfolio, namely: Department of Town and Country Planning, Department of Local Government and the Department of Environment. The Ministry is responsible for the formulation and implementation of local government and urban planning policies, the development of government policy for the protection of the environment and its sustainable use for human resources and policing the use of the environment and ensuring compliance with Government policy by economic agents. The Ministry is also responsible for administering the Government Grant for the National Fire Services.

### **PART A: FINANCIAL STATEMENTS**

#### **26.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Local Government, Urban Development and Environment, resulted in the issue of a qualified audit report.

The basis of qualification was that an un-reconciled variance of \$593,940 exists in the Department of Environment Main Trust Fund Account between the bank statement balance and the General Ledger (FMIS) balance.

#### **26.2 Statement of Receipts and Expenditure**

The Ministry collected revenue amounting to \$249,450 and incurred expenditure totaling \$19,018,640 in 2014.

The Ministry's revenue increased by \$63,496 or 34.1 % in 2014 compared to 2013 due to increase in Town and Country Planning Fees collected, increase in Commission Revenue and increase in miscellaneous revenue.

Total expenditure increased by \$7,388,554 or 63.5% in 2014 compared to 2013 due to increase in staff establishment, increase in capital construction and purchase and increase in capital grants and operations.

#### **26.3 Appropriation Statement**

The Ministry of Local Government, Urban Development and Environment incurred expenditure totaling \$19,018,640 in 2014 against a revised budget of \$22,749,604 resulting in saving of \$3,730,964 or 16.4%.

## 26.4 Statement of Losses

There was no loss reported for the Ministry in 2014. A board of survey for the year ending 31 December 2014 was conducted by the Ministry.

## 26.5 Trust Fund Account Statement of Receipts and Payments

The Environment Main Trust Fund Account had \$2,872,275 credit balance for the year 2014 compared to a credit balance of \$2,094,231 in 2013. Refer Table 26.3 for receipts and payments for the year ended 31/12/14.

## PART B: AUDIT FINDINGS

### 26.6 Main Trust Fund Account – Un-reconciled Balances

Each month the trust account must be balanced and reconciled with the trust bank account. The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer. Un-reconciled items must be investigated and resolved promptly. (Finance Instructions 2010 Section 58[3])

The department of environment's main trust fund account had a balance of \$2,872,276.07 in FMIS general ledger while the bank statement had a balance of \$3,466,216.58 as at 31/12/14. The department did not prepare the main trust fund account reconciliation for 2014. Hence the main trust fund account balance as at 31/12/14 was not reconciled.

The department had an un-reconciled variance of \$593,940.51 between the main trust fund account general ledger and the bank statement balance as at 31/12/14. Refer to Table 26.4 below for details.

**Table 26.4 Variances in Environment Trust Fund Account**

| Balance As Per Trust Fund Bank Statement (\$) | Balance As Per Trust Fund Ledger (FMIS) (\$) | Variance (\$) |
|---|--|---------------|
| 3,466,217                                     | 2,872,276                                    | 593,941       |

The findings show laxity of the officers responsible for not performing their duties. As a result audit was not able to ascertain that all receipts and payments had been accurately accounted for in the main Trust Fund account.

The committee was informed that the variance of \$593,940.51 was inherited by the Ministry from the Ministry of Lands, following change in ministerial portfolio in 2010, resulting in the transfer of the Trust Account to the Ministry. The Ministry has been doing some reconciliation work and journalisation and in the process, it has noted some mispostings in consultation with the FMIS. So that has resulted

in the variance being reduced from \$593,940 to \$330,085 in 2015, compared to 2014.

However, the Ministry is committed to rectify the inherited anomaly in accordance with the regulations and procedures in place.

The Committee agreed with the Auditor General's recommendations that the Senior Accounts Officer should ensure that:

- Trust Fund account bank balance is reconciled with the Trust Fund FMIS ledger balance on a monthly basis;
- Receipts and payments from the Environment Trust Fund account are posted to the general ledger on a timely basis; and
- Necessary action is taken against officers responsible for not performing their duties.

## **26.7 Variance in FNPf Figures**

Every employer shall pay to the Fund in respect of each of his employees, in every month during which such employee by him and in the month following the termination of such employment, a contribution calculated upon the amount of wages payable to such employee by such employer for the preceding month at the appropriate rates. (Chapter 219 – Fiji National Provident Fund – Section 13 [1])

The rate of contribution in 2014 was 16 cents on each dollar earned, with the employer and employee each contributing 8 cents.

A variance of \$11,828.63 was noted between the Ministry's gross pay on which FNPf was paid and the audit calculations of gross pay subject to FNPf. The variance in gross pay may be attributed to some staffs and project officers either paid from SEGs other than SEG 1 and SEG 2 or FNPf deductions incorrectly posted to other allocations.

As a result, audit was unable to ascertain the accuracy of the FNPf payment made by the Ministry.

The committee was advised that the Ministry had clarified this with OAG that this variance occurred due to the payments of the 2014 December FNPf payments which was done in January the following year (2015). This has been rectified and the Ministry ensures it will strictly follow finance regulations and procedures in place pertaining to FNPf monthly reconciliation of salaries and wages.

The Committee agreed with the Auditor General's recommendations that the Senior Accounts Officer should ensure that proper FNPf reconciliation is carried out on a monthly basis to identify variances and take appropriate corrective actions.

## 26.8 VAT Reconciliation

Subject to the provisions of this Decree, the tax shall be charged in accordance with the provisions of this Decree at the rate of fifteen percent on the supply (but not including an exempt supply) in Fiji of goods and services on or after the 1st day of July 1992, by a registered person in the course or furtherance of a taxable activity carried on by that person, by reference to the value of that supply. (Value Added Tax Decree 1991 revised to 4th March 2011 – Section 15[1])

Output VAT is payable to the Commissioner of Inland Revenue for the supply of all goods and services with the exception of zero rated and exempted supplies. Payments effected by government departments for goods and services are thus subjected to VAT. (Finance Circular No 9/95)

The audit noted that the Ministry did not prepare VAT reconciliations during the year. The review of VAT returns and total expenses revealed a variance of \$114,503.06 between the taxable supplies as per VAT Return and total expenditure/income subject to VAT as per Statement of Receipts and Expenditure. Refer to Table 26.6 and 26.7 below for details.

**Table 26.6: Un-Reconciled VAT Variance**

| Details  | Amount (\$)       |
|--|-------------------|
| Total expenditure as per Expenditure Statement           | 30,502,462.74     |
| Less: Expenditure not subject to VAT – SEG 1,2, 6 and 10 | 20,542,179.19     |
| Total expenditure subject to VAT                         | 9,960,283.55      |
| Less: Total taxable supplies as per VAT Returns          | 10,074,786.61     |
| <b>Un-reconciled variance</b>                            | <b>114,503.06</b> |

In addition, a difference of \$115,412.19 was noted between the actual VAT paid for the year 2014 and the balance disclosed in the general ledger. Refer to Table 26.7 below for details.

**Table 26.7: Variance in VAT Paid Amount in FMIS**

| Details  | Amount (\$)       |
|--|-------------------|
| VAT payments (VAT payments to FRCA and VAT Input) as per General ledger (SEG 13) | 1,295,386.63      |
| VAT payments (VAT payments to FRCA and VAT Input) as per VAT Returns for 2014    | 1,179,974.44      |
| <b>Un-reconciled variance</b>  | <b>115,412.19</b> |

No explanation was provided by the Ministry for the variances.

The non-reconciliation of VAT and poor monitoring by the Ministry may have resulted in the differences highlighted above. The Ministry may be paying incorrect VAT to FRCA.

The committee was advised that the Ministry noted the audit issue and recommendations of the OAG. Necessary actions were effected in 2015 to rectify this anomaly and the Ministry ensures that it will strictly follow the finance regulations and procedures in place pertaining to VAT payments and preparation of VAT returns.

The Committee agreed with the Auditor General's recommendations that the Senior Accounts Officer should:

- Ensure that VAT paid to FRCA is reconciled on a monthly basis;
- Take necessary steps to identify the error and reconcile the records to avoid such variances in future; and
- Ensure supervisory checks on the preparation of VAT Returns.

## 26.9 Construction of Naboro Landfill Stage 2

The proper management of expenditure is fundamental to ensuring value for money in delivering services to the community.<sup>5</sup>

The Ministry of Local Government, Urban Development, Housing and Environment was allocated \$1,232,616 in the 2014 budget for the extension of the current Naboro Landfill. According to the Public Sector Investment Program (PSIP), the budget was divided into the following components as shown in Table 26.8.

**Table 26.8: Budget Components**

| Description  | Amount (\$)      |
|--|------------------|
| Detailed design, investigations, and specification | 373,520          |
| Construction: Survey                               | 186,760          |
| Operational: Survey                                | 186,760          |
| Establishment and Supervision                      | 373,520          |
| Contingency  | 112,056          |
| <b>Total</b>                                       | <b>1,232,616</b> |

The Ministry on 12/03/14 called tenders for the detail design, investigation and specification works. Following the tender evaluations process, the Government Tender Board (GTB) on 06/08/14 awarded the Tender for a sum of \$280,527.50.

The audit noted that the Contractor signed the contract agreement on 11/05/15 which was after 9 months from the date tenders were awarded by the GTB. According to the Director Environment the delay in the finalization of the agreement was due to the disagreement between the Contractor and the Department of Environment on the terms and conditions of the contract agreement.

As a result, on 18/12/14 the Ministry of Finance redeployed \$1,232,616 allocated for construction of the 2<sup>nd</sup> phase of the landfill as the Department of Environment failed to utilize the fund.

The audit further noted that the current Operation Managers of the Landfill raised its concern in its March 2015 reports that the current landfill will reach its maximum capacity by November 2015 and the available airspace in the landfill would become a serious issue. Therefore the construction of the 2<sup>nd</sup> phase of the landfill is vital for Operations Managers to continue to manage the wastage. In addition the Operations Managers estimated that it would take 18 months to complete the next stage of the landfill.

The Ministry failed to carry out proper planning for the construction of the 2<sup>nd</sup> phase of the landfill. The Ministry may not be able to complete 2<sup>nd</sup> phase of the landfill before the current space gets filled by November 2015.

The Committee was informed that the Ministry noted the audit issue and recommendations by the OAG on the capital projects to be properly planned and managed so that funds allocated are effectively used within a fiscal year. The Ministry had executed proper planning for the design and construction of the Naboro Landfill Stage 2. However due to unforeseen circumstances, with regards to the 15 percent Withholding Tax Policy, the contract design work was not finalised in 2014.

When the Department of Environment went to tender to design works for Stage 2, the policy for the Revenue Department was that they had not included withholding tax as part of the policy, but that changed after the awarding of tender. And when this contract was verified by the Solicitor-General's Office, they showed that the withholding tax issue was missing in the contract but the tender had already been awarded. Moreover, when the tender documents were given out, the withholding tax issue was not reflected in the tender documents, so that was where the disagreements were and caused the delay in the construction. This resulted in the Ministry paying \$44,000 as withholding tax to FRCA.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- Capital projects are properly planned and managed so that funds allocated are effectively used within the fiscal year;
- Works on the construction of the 2<sup>nd</sup> phase of the Landfill commences immediately; and
- There is a master plan in place for the long term sustainability of the landfill.

## 26.10 Waste Transfer Station

Capital Project needs to be properly planned to ensure that projects are completed on time and that the objective of funds allocated for the Capital Projects are met.

The Ministry of Local Government, Urban Development, Housing and Environment was allocated \$1,000,000 in the 2014 budget for the construction of Waste Transfer Station at Laqere.

However, the Ministry failed to commence with the project work in the first quarter of 2014 and the Ministry of Finance redeployed \$1,000,000 on 18/12/14.

The Ministry called tenders for the architectural design of the construction of the Waste Transfer Stations on 08/10/14. The tender evaluation was carried out on 11/12/14. The GTB awarded the tender to Hydea Spa on 13/02/15 amounting to \$332,668.87.

The finding indicates the Ministry's lax attitude in its service delivery which resulted in the tender process to be carried out towards the fourth quarter of 2014. The project was delayed which may result in poor service delivery to the community.

The committee was informed that the Ministry noted the audit issue and the recommendations of the OAG. Whilst the Ministry admits that the work under this capital project was not properly managed, this was mainly due to staff workload as the only officer available was also responsible in delivering other capital projects.

In terms of the way forward, the Department has assigned a desk officer this year, which is solely responsible for ensuring that works are carried out as per the capital project work plan.

The project had undertaken the preliminary processes required of such development at Naboro, for example, undertaking of the Environment Impact Assessment (EIA) study, etc. However, there were constraints encountered when the Ministry consulted the communities who live at the peripheries of the development site.

The Waste Transfer Station used to be located at Laqere, the old Government quarry site. The Ministry received advice from the Department of Town and Country Planning about the rezoning eligibility and those kind of developments were eligible. It is a Crown land but when the office undertook the due process of doing an EIA and consulted the people around the community, some objected to the waste transfer station. So the idea of waste was altogether combined with having another dump there. So those misconceptions also affected how the project was to be but we are revisiting that area. The Ministry is revisiting Laqere

and going back to the communities to communicate may be a better way of how the waste transfer station will be done. It is an inclusive facility and not an open area, so the responsible officers are going back to the community.

At the moment, operations will be as usual, there will be no collection of waste at the central area. Councils will be taking their waste to Naboro until the transfer station is established, but it will also be a huge request on the Councils to take their waste to Naboro. For example, the Nausori Town Council does about 42 kilometers one way to Naboro, so it is a big 'ask' at hand. That was the reason the Ministry tried to establish a transfer station and is pursuing it.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should ensure that proper planning for capital expenditure is carried out as soon as the Parliament approves the National Budget.

### 26.11 Operation of Naboro Landfill

Under the Special Condition of the contract agreement, the Engineer is the Permanent Secretary or their nominee. (Special Conditions of Contract Section 6.2.1)

Progress payments to the Contractor should be made after reviewing the progress of the project, materials used and workmanship. Upon inspection and before payment is effected a progress report and inspection reports should be prepared by the Engineer or a qualified officer having knowledge of the operations of the Landfill.

The Ministry of Local Government, Urban Development, Housing and Environment entered into a five year contract agreement with the Contractor for the operation of Naboro Landfill with a contract price of \$5,834,070 (VIP).

The table below shows the total subsidies paid to the Contractor for the operation of Naboro landfill as at 31/12/2014.

**Table 26.9: Total Subsidies Paid for Naboro Landfill Operations as at 31/12/2014**

| Year         | Revenue<br>(\$)      | Subsidy<br>(\$)      | Total Contract<br>Cost<br>(\$) |
|--------------|----------------------|----------------------|--------------------------------|
| 2005-2010    | 7,242,241.41         | 6,339,926.07         | 13,582,167.48                  |
| 2011         | 1,621,807.78         | 1,200,000.00         | 2,821,807.78                   |
| 2012         | 1,583,713.83         | 908,838.82           | 2,492,552.65                   |
| 2013         | 1,734,099.01         | 1,200,000.00         | 2,934,099.01                   |
| 2014         | 1,993,178.30         | 1,194,058.73         | 3,187,237.03                   |
| <b>Total</b> | <b>14,175,040.33</b> | <b>10,842,823.62</b> | <b>25,017,863.92</b>           |



The audit noted that the Ministry failed to appoint an Engineer to supervise the operations of the Naboro Landfill. The Ministry continued to make payments to the Contractor for managing the operations of the landfill based on the progress reports prepared by the Environment Officer who was the Ministry's nominee. As at 31/12/14, the Ministry paid a total of \$3,308,759.46 (VEP) to the Contractor for managing the Naboro Landfill.

However, the Environment Officer does not have the required expertise for the operation and management of an active landfill face (the outline of the landfill) and maintenance of existing landfill assets including weighbridge, landfill leachate aerators, access road and building.

The above finding indicates that the Ministry complies with the special conditions of the contract agreement.

In the absence of a qualified Engineer supervising the operations of the Landfill, there is a high risk that the Ministry may not be able to detect malpractices by the Contractor.

The committee was informed that the Ministry had requested for the recruitment of a qualified engineer through the 2015 Budget submission but this was unsuccessful, so the Ministry is now trying through the 2017-2018 Budget.

At the moment, the Ministry has sought the services of an engineer that is based at the Department of Housing and the Ministry had also sought the services of a senior JICA volunteer, who was based at the Nausori Town Council to assist the Department in the verification of the payments and the construction works.

In terms of the subsidy paid to Naboro Landfill, the operations of this subsidy and who is paying for these, the Ministry receives gate fees at Naboro that is paid in by all who are dumping waste at Naboro. That money is put in the Ministry's trust fund. Any shortfall in the amount of money received is assisted through the Naboro Landfill subsidy that is provided by Government on an annual basis of about \$1.9 million.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should ensure that a qualified Engineer is appointed for managing the operation of Naboro Landfill.

#### **26.12 Naboro Landfill Debtors**

All refuse accepted on credit shall be the responsibility of the Contractor. The acceptance of cheques for payment of fees, the recovery of fees from users who do not have sufficient cash and the recovery of bad debts shall be the responsibility of the Contractor. (Contract Agreement between the Contractor and MLGUDHE clause 2.5)

The Contractor allowed rubbish to be disposed at Naboro Landfill on credit. The audit noted that the total debtor's balance for the Naboro Landfill as at 31/12/14 was \$545,329.35 out of which \$255,365.80 or 46.8% was outstanding for more than 90 days.

The audit also noted that \$448,726.28 or 82.3% of the total debts was owed by four municipal Councils. Refer to Table 26.10 for details.

**Table 26.10: Municipal Councils Debt**

| Municipal Council | Amount Owed as at 31/12/14 (\$) | Percentage of Total Debtors |
|-------------------|---------------------------------|-----------------------------|
| Council 1         | 214,417.11                      | 39.3                        |
| Council 2         | 119,033.26                      | 21.8                        |
| Council 3         | 30,359.23                       | 5.6                         |
| Council 4         | 84,916.68                       | 15.6                        |
| <b>Total</b>      | <b>448,726.28</b>               | <b>82.3</b>                 |

The Ministry does not maintain any evidence to substantiate that the Contractor has been following up with the debtors to recover the amount owed.

The audit further noted that the Naboro Landfill debtors is significantly contributing to large amount of subsidy paid by the Ministry to meet the short fall in the monthly gate fees collected. For the financial year 2014, the Department of Environment paid \$1,199,999.84 as subsidy to the Contractor out of which 45.44% or \$545,329.35 was for the Naboro Landfill debtors.

The above findings indicated that the Contractor's debt recovery procedures are ineffective as significant amount of debtors balance is outstanding for more than 90 days. In addition the findings also indicates that the Contractor does not recognize the importance of recovering debts as the Ministry has been continuously meeting the short fall in the gate fees through subsidy payment

Failure by the Contractor to effectively manage the debtor balances will increase the risk of bad debts.

The committee was informed that the Ministry notes the audit issue and the recommendations of the OAG, that the Permanent Secretary ensures that the contractor complies with all aspects of the contract agreement and effectively manages the Naboro Landfill debtors, as well as consider assisting the contractor in collecting the debts from the Municipal Councils as 82.3 percent of the debts are owed by the Councils.

Briefly on the background, the contractor has to pass all revenue from the operations of the Naboro Landfill to the principle and assumes responsibility for recovering all debts that are incurred for customers allowed on credit basis. Specifications state that the contractor must ensure that there are sufficient funds

in the nominated Trust Fund, to ensure payment to the contractor for the previous months. This, in itself, acts as a control measure for requiring the contractor to recover minimum of \$230,000 to \$250,000 from its creditors.

The committee was advised that majority of the debtors are Municipal Councils, and the Ministry is also responsible for the affairs of Local Governments, therefore, appreciates the variable and volatile cash flows experienced by the Councils mentioned.

The Ministry has actually put in place control measures and for this year alone, comparing the total January debtors to February 2017 have noted a substantial decrease in the debts owed by the Councils to the operator. For example, Lami Town Council owed \$17,000 to Naboro and this was reduced to \$6,000 in February 2017, so within a month-span the Ministry, in consultation with the contractor, we were able to improve in our collection.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should:

- Ensure that the Contractor complies with all aspects of the contract agreement and effectively manages the Naboro Landfill Debtors; and
- Consider assisting the Contractor in collecting the debts from the municipal councils as 82.3% of the debts are owed by the municipal councils.

### **26.13 Naboro Landfill Design and Construction of Phase 2**

The Ministry will appoint the Engineer and advice at the commencement of the Contract. (Special Conditions of Contract Section 6.1.2)

Progress payments to the Contractor should be made after the Engineers review of the progress of the project, materials used and workmanship. Upon inspection and before payment is effected a progress report and inspection reports should be prepared by the Engineer.

The GTB on 26/06/13 awarded tender number CTN 241/2012 for the Design and Construction of Naboro Landfill Phase 2. The total contract price for the project was \$3,155,350 VEP. The project was to be completed in 56 weeks. The project works commenced on 01/07/13 and the Ministry issued the certificate of practical completion on the 11/11/14.

The audit noted that the Ministry did not appoint an Engineer for the Naboro Landfill Phase 2 Design and Construction project. The project works were completed on 11/11/14. Instead the Ministry appointed Environment Officer to oversee the project implementation.

The Environment Officer did not have expertise in the Landfill project design and construction as he holds a Bachelor's Degree in Environment Studies.

The Ministry made 8 progressive payments amounting to \$2,962,188 (VEP) and all the progress payments were certified by the Environment Officer.

The above issue was also highlighted in the 2013 audit report however the Ministry failed to take corrective action to appoint a qualified Engineer to oversee the construction of the landfill.

This indicates that the progress of the construction work was not supervised by appropriate personnel.

There is a high risk that the project works may not have properly supervised and monitored.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should ensure that a qualified engineer is appointed to monitor, supervise and review progress claims for the construction of such projects in future.

## **Section 27: Ministry of Social Welfare, Women and Poverty Alleviation**

### **Role and Responsibilities**

There are two departments under the Ministry of Social Welfare, Women and Poverty Alleviation whose plans all across the units are aligned to the core vision of the Roadmap for Democracy Sustainable Socio-Economic Development (2009 – 2014) which is to create “A Better Fiji for All” and the provisions under relevant sections under the 2013 Constitution.

### **Department of Social Welfare**

The Department of Social Welfare’s primary role is to alleviate poverty through providing welfare support and empowering people who are disadvantaged in all the vulnerable section of the community including the underprivileged children as stipulated in the relevant legislation. It is also responsible for the administration of Poverty Alleviation Programmes through seed grants for Income Generating Projects to eradicate poverty.

### **Department of Women**

The Department of Women is the primary advisor to Government on public policies that affect women and the key catalyst for the implementation of the National Women’s Plan of Action 2010 - 2019 which includes the strategic objectives and directions for action in the following five thematic areas:

- (i) Formal Sector Employment and Livelihood;
- (ii) Equal participation in decision making;
- (iii) Eliminating of violence against women and children;
- (iv) Access to basic services; and
- (v) Women and the Law.

These areas of concern are aligned to key International Conventions and Agreements including the Convention on the Elimination of All Forms of Discrimination Against Women [CEDAW]; the Beijing Platform of Action (BPA), the Millennium Development Goals (MDGs) and Regional Agreements such as the Pacific Platform for Action. Furthermore, the Department assists the Government’s work towards the full and active participation of women in society.

## **PART A: FINANCIAL STATEMENTS**

### **27.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Social Welfare, Women and Poverty Alleviation resulted in the issue of a qualified audit report. The qualifications were as following:

- The Ministry of Social Welfare, Women and Poverty Alleviation did not complete the annual Board of Survey for the whole Ministry.
- The Ministry did not include in the Statement of Losses the amount of \$113,548.42 written-off by the Ministry of Finance from the Ministry's Drawings account. As a result, the correctness of the Statement of Losses submitted by the Ministry could not be verified.

## **27.2 Statement of Receipts and Expenditure**

The Ministry collected revenue amounting to \$17,594 and incurred a total expenditure of \$35,534,832 in 2014.

The Ministry's revenue increased by \$10,174 or 137.1% in 2014 compared to 2013 due to significant increase in Miscellaneous Revenue.

The total expenditure increased by \$5,697,349 or 19.1% in 2014 compared to 2013 due to the introduction of the Expanded Food Voucher Program for pregnant mothers in rural areas, increase in the number of recipients for the Poverty Benefit Scheme, Social Pension Scheme and Care and Protection Scheme and construction of new Women's Resource Centres.

## **27.3 Appropriation Statement**

The Ministry of Social Welfare, Women and Poverty Alleviation incurred expenditure totaling \$35,534,832 in 2014 against the budget of \$39,588,899 resulting in savings of \$4,054,067 or 10.2%

## **27.4 Statement of Losses**

The Board of Survey for the year 2014 was not completed for the Northern, Western and Central/Eastern Divisions for the year ended 2014. In addition, no Board of Survey was carried out for the Social Welfare Department and the Corporate Section of the Ministry for the year 2014. The Ministry recorded a loss of safe amounting to \$962.

## **PART B: AUDIT FINDINGS**

### **27.5 Drawings Account**

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instructions 2010 – Section 32[6])

The Permanent Secretary must appoint a Board of Survey to conduct a physical stock takes of all cash on hand and other stocks held in safes at least once a year. (Finance Instructions 2010 – Section 31[5])

A new format of the Drawings account reconciliation was introduced by the Ministry of Finance effective from 1/1/14 through the Finance Circular Number 2/2014. The Ministry of Finance did not carry out any training on the new format for the Ministry and prepared the reconciliations on behalf of the Ministry.

The audit noted the following anomalies in the Ministry's Drawings account.

- A variance of \$147,776.89 existed between the Ministry's closing balance for 2013 and the opening balance for 2014 used by the Ministry of Finance for carrying out the Drawings account reconciliation on behalf of the Ministry. Refer to Table 27.3 for details.

**Table 27.3: Variance in Opening Balance in Drawings Account**

| Description      | 2013 Closing Balance As Per Ministry's Reconciliation (\$) | 2014 Opening Balance Used By Ministry Of Finance (\$) | Variance (\$) |
|------------------|--|---|---------------|
| Drawings Account | 2,213,676.46   | 2,065,899.57  | 147,776.89    |

The Ministry of Finance prepared the Drawings account reconciliations for the Ministry on a monthly basis for the months of July to October 2014 only. The Ministry of Finance combined the reconciliations for the months of January to May and the months of November to December 2014.

The closing balance of Ministry's Drawings account reconciliation for the month of May 2014 and the opening balance for the month of June 2014 had a variance of \$2,854,298.86. Refer to Table 27.4 for details.

**Table 27.4: Variance in Closing and Opening Balance in Drawings Account for the months of May and June**

| Description      | Closing Balance As Per May Reconciliation (\$) | Opening Balance As Per June Reconciliation (\$) | Variance (\$) |
|------------------|--|---|---------------|
| Drawings Account | 3,257,621.54                                   | 403,322.68                                      | 2,854,298.86  |

The Ministry did not carry out Board of Survey for the unrepresented cheques as at 31/12/14.

A variance of \$1,521,623.18 existed between the Ministry's Drawing account reconciliation and the FMIS general ledger balance as at 31/12/14. Refer to Table 27.5 for details.

**Table 27.5: Variance in closing balance in Drawings Account**

| Description      | Balance As Per Drawings Account Reconciliation (\$) | Balance As Per FMIS (\$) | Variance (\$) |
|------------------|---|--------------------------|---------------|
| Drawings Account | 3,472,703.75  | 1,951,080.57             | 1,521,623.18  |

The findings indicate lack of supervision and monitoring by Senior Officers and lack of coordination between the Ministry and the Ministry of Finance.

The committee was informed that at the moment, the Ministry is currently working on it because the Drawings reconciliation now is handled by the MOE at the FMIS Section. The variance is represented only for the stale cheques, etc. and is handled by the Ministry with the assistance of the Ministry of Economy.

The committee was advised by the Ministry of Economy that the issue of that \$147,776 was, in fact, solved in 2014 through a write-off because that was a recurring issue which the Finance Ministry were not able to reconcile through data migration from the old system to the new system, so it was a write-off in 2014 for that amount.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- Adequate supervision and monitoring is provided by the senior officers to their subordinates;
- Concerted effort is made to liaise with the Ministry of Finance to ensure the records between the two Ministries are reconciled;
- The correct closing balance for the year 2013 is used as the opening balance for the year 2014;
- Monthly reconciliations are prepared for the Drawings account;
- Board of Survey of the unrepresented cheques is carried out at the end of the year;
- Necessary adjustments are made to rectify the variances; and
- Appropriate disciplinary action is taken against responsible officers.

## **27.6 Unpresented Cheques Listing**

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (Finance Instructions 2010 – Section 32[6])

Electronic Funds Transfer (EFT) is the electronic exchange, transfer of money from one account to another, either within a single financial institution or across multiple institutions, through computer-based systems.

EFT's numbers are automatically generated in the FMIS Ledger for individual payments. The processing for the EFT's is done in batches by the Bank.



The audit noted that the Ministry of Finance while carrying out the bank reconciliations could not map the batch postings in the bank statement to the EFT numbers generated in the FMIS Ledger.

As a result, the unrepresented cheques totaling to \$3,472,703.25 for the Ministry as at 31/12/14 was inclusive of \$1,404,786.08 or 40.5% of the EFT. In addition some of the EFT amounts included in the Drawings account reconciliation as at 31/12/14 were dated as far back as 2013. Hence, the Drawings account reconciliation does not reflect the correct amount of the unrepresented cheques listing at balance date.

The findings indicate poor reconciliation and monitoring process of the Drawings accounts. As a result the unrepresented cheques listing was overstated by \$1,404,786.08 at balance date.

The Committee concurs with the Auditor General's recommendations that the Ministry should liaise with the Ministry of Finance to ensure that proper reconciliation of the unrepresented cheques is carried out.

## **27.6 Statement of Losses**

Statement of Losses is a component of the Agency Financial Statement which includes the loss of cash, loss of assets and write-offs reported during the financial year.

The audit of Statement of Losses for the Ministry revealed the following anomalies.

- The losses statement shall provide information on losses written-off during the financial year and the status of recoveries of losses. (Ministry of Social Welfare, Women and Poverty Alleviation 2013, Section 14.1.8)

The Ministry did not include in the Statement of Losses the amount of \$113,548.42 written-off by the Ministry of Finance from the Ministry's Drawing account in 2014.

Due to negligence on the part of the management the Statement of Losses was not correctly reported. As a result the losses may not be properly disclosed by the Ministry in the Statement of Losses.

- An annual board of survey must be conducted each year to verify the existence and condition of assets recorded on the asset register provided that, for agencies that have, in the opinion of the Permanent Secretary a large asset base, the board of survey to be conducted on a cyclical basis so that all assets are checked every year. (Financial Instructions 2010 Section 49[1])

The audit of Statement of Losses revealed that the Ministry did not complete its Board of Survey for the year ended 31/12/14.

As at the date of audit (31/03/2014), the Board of Survey was not completed for Northern, Western and Central/Eastern Divisions. In addition the Board of Survey was not carried out for the Social Welfare Department and the Corporate Section of the Ministry. Furthermore the Board of Survey carried out in 2014 was declared as invalid by the Ministry of Finance. As confirmed by the Principal Assistant Secretary this was due to the fact that the committee members submitted to Ministry of Finance was different from the members who carried out the actual Board of Survey in 2014.

Due to lack of proper planning and coordination by the Ministry, the Board of Survey for 2014 was not complete.

As a result the losses may not be properly disclosed by the Ministry in the Statement of Losses.

The committee was informed that this is an area that the Ministry needs to work more closely with the Ministry of Economy. Even though, the Ministry are tightening up a lot of new areas in their financial management information system and staff need to be capacity-built to ensure that these sort of matters are taken care of, and with proper training and also with proper monitoring both, internally and also by the Ministry, it will ensure that the Ministry deals with these matters and it does not occur again.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- All the write-offs are adequately reported in the Statement of Losses;
- Annual Board of Survey is properly planned so that correct amount is reflected in the financial statement;
- Annual Board of Survey is conducted before agency financial statement audit to ensure losses are properly disclosed;
- The members whose names are submitted to the Ministry of Finance are the ones who carry out the actual Board of Survey; and
- Appropriate disciplinary action is taken against responsible officers.

## **27.7 Overdrawn Operating Trust Fund Account**

Operating Trust Fund account consists of other moneys that were recorded as trust such as salary deductions payable to other entities, insurance premium deductions from employees, Fiji National Provident Fund deductions from employees etc. These other moneys were recorded in the Operating Trust Fund

account and by convention should always have credit balances. Thus, the Trust Fund accounts should not at any time is overdrawn.

The audit noted that the Ministry's Operating Trust Fund account was overdrawn by \$407.87 as at 31/12/14. Refer to Table 27.6 for details.

**Table 27.6: Overdrawn Operating Trust Fund Account**

| Account Number       | Description                            | Amount (\$)   |
|----------------------|--|---------------|
| 1-24101-24999-861307 | 264 PD Home Finance Company            | 316.19        |
| 1-24101-24999-861501 | 286 PD Fiji Public Service Association | 6.68          |
| 1-24101-24999-861525 | 316 PD Service Worker Credit Union     | 15.00         |
| 1-24101-24999-861616 | PD Maintenance Nasinu                  | 30.00         |
| 1-24101-24999-861927 | PD Fijian Holdings Unit Trust          | 20.00         |
| 1-24202-91011-861101 | 202 PD OPR Current Year                | 20.00         |
| <b>Total</b>         |  | <b>407.87</b> |

The overdrawn Trust Fund accounts may arise from payments to the organisations for which deductions were not made.

The finding indicates inadequate reviews by Senior Officers of deductions made and paid to various organizations.

The committee was informed that the overdrawn amount was due to the carry forward balance from the previous years. The Ministry has now rectified that and their SLG Trust Fund Account is in credit balance now.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Ensure that adequate reviews are carried out by the Senior Officers on the Trust Fund accounts;
- Ensure that Trust Funds are not overdrawn at any time;
- Ensure that salaries/wages deducted from the employees are paid to the appropriate organization; and
- Investigate the overdrawn Trust Fund account balance as at 31/12/14 and take appropriate corrective action.

## **27.8 VAT Reconciliation**

Subject to the provisions of this Decree, the tax shall be charged in accordance with the provisions of this Decree at the rate of fifteen per cent on the supply (but not including an exempt supply) in Fiji of goods and services on or after the 1/7/92, by a registered person in the course or furtherance of a taxable activity carried on by that person, by reference to the value of that supply. (Value Added Tax Decree 1991 revised to 4th March 2011 – Section 15[1])

Output VAT is payable to the Commissioner of Inland Revenue for the supply of all goods and services with the exception of zero rated and exempted supplies.

Payments effected by government departments for goods and services are thus subjected to VAT. (Finance Circular No 9/95)

The current rate of VAT is 15 cents of every dollar spent on goods and services bought and sold with exception of zero-rated and exempted supplies.

The review of the monthly VAT returns revealed the following anomalies:

- A variance of \$176,598.13 existed between the VAT paid to FRCA for the year 2014 and the balance disclosed in the FMIS general ledger. Refer to Table 27.7 for details.

**Table 27.7: Variance in VAT Reconciliation**

| Details   | Amount (\$)       |
|---|-------------------|
| VAT payments (Input VAT) as per Statement of Receipts and Expenditure         | 241,462.62        |
| VAT payments (VAT payments to FRCA and Input VAT) as per VAT Returns for 2014 | 64,864.49         |
| <b>Un-reconciled variance</b>   | <b>176,598.13</b> |

- Ministry of Finance Circular 9/95 provides the guidelines for the preparation of VAT returns. The Circular also provides an example to guide accountants in the preparation of VAT returns.

The Ministry changed the methodology for preparation of VAT Returns from the month of April 2014. The Ministry did not account for sales and income in VAT returns from April onwards. In addition the Ministry did not account for VAT on the budget loading by the Ministry of Finance. Refer to Table 27.8 for details.

**Table 27.8: VAT returns for 2014**

| Month        | Taxable Supplies (VIP)<br>(\$) | VAT Output<br>(\$) | VAT Input<br>(\$) | VAT Payable<br>(Refund) (\$) |
|--------------|--------------------------------|--------------------|-------------------|------------------------------|
| January      | 88,276.22                      | 11,514.29          | 9,548.24          | 1,966.05                     |
| February     | 139,507.43                     | 18,196.62          | 16,920.40         | 1,276.22                     |
| March        | 269,510.81                     | 35,153.58          | 36,118.84         | (965.26)                     |
| April        | ---                            | ---                | 29,553.85         | (29,553.85)                  |
| May          | ---                            | ---                | 21,200.28         | (21,200.28)                  |
| June         | ---                            | ---                | 19,172.20         | (19,172.20)                  |
| July         | ---                            | ---                | 13,645.55         | (13,645.55)                  |
| August       | ---                            | ---                | 13,693.07         | (13,693.07)                  |
| September    | ---                            | ---                | 19,571.16         | (19,571.16)                  |
| October      | ---                            | ---                | 24,340.28         | (24,340.28)                  |
| November     | ---                            | ---                | 13,712.01         | (13,712.01)                  |
| December     | ---                            | ---                | 30,549.70         | (30,549.70)                  |
| <b>Total</b> | <b>497,294.46</b>              | <b>64,864.49</b>   | <b>248,025.58</b> | <b>(183,161.09)</b>          |

The methodology adopted by the Ministry in preparing its VAT returns effective from April 2014 is contrary to Note 2 (b) of the Ministry's Special Purpose Financial Statements for the year ended 31 December 2014.

The Ministry did not comply with the Ministry of Finance circular 9/95.

The variance in the VAT reconciliation indicates that the Ministry did not correctly record the revenues and thus did not correctly pay the VAT on revenues.

The committee was further advised that the variance is only due because of lack of reconciliation or it was not done properly, but we have made an effort now that reconciliation and payment of VAT is done on time.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- The Ministry of Finance Circular 9/95 on preparation of VAT returns is adhered to;
- VAT paid to FRCA is reconciled on a monthly basis;
- Necessary steps is taken to identify the error and reconcile the records to avoid such variances in future; and
- Supervisory checks on the preparation of VAT returns are improved so that the balances reflected in the VAT returns reconcile with the FMIS.

#### **27.10 Unauthorised Journal Vouchers**

Only the SAO and AO shall approve journal adjustments. (Ministry of Social Welfare and Poverty Alleviation Manual 2013, Section 16.1.2) Journal vouchers must be numbered in sequential order. Supporting documents shall be attached to the voucher. (Ministry of Social Welfare and Poverty Alleviation Manual 2013, Section 16.1.3) Once the journal voucher has been approved, it shall be posted into the appropriate ledger and the general ledger system. (Ministry of Social Welfare and Poverty Alleviation Manual 2013, Section 16.1.5)

The audit noted several instances where the journal vouchers were posted in the FMIS (general ledger) without the approval of the Principal Accounts Officer and Accounts Officer. Refer to Table 27.9 for examples.

**Table 27.9: Examples of Journal Vouchers not Approved**

| Date     | Journal Voucher Number | Amount (\$) | Approved By        |
|----------|------------------------|-------------|--------------------|
| 14/08/14 | 08                     | 5,800.00    | JV not approved    |
| 14/08/14 | 12                     | 13,000.00   | JV not approved    |
| 14/08/14 | 03                     | 610.00      | Clerical Officer 1 |
| 14/08/14 | 15                     | 5,422.00    | Clerical Officer 1 |
| 14/08/14 | 14                     | 16,900.00   | Clerical Officer 1 |
| 14/08/14 | 13                     | 1,300.00    | Clerical Officer 1 |
| 15/08/14 | 18                     | 3,840.40    | JV not approved    |
| 15/08/14 | 17                     | 25.29       | Clerical Officer 1 |
| 15/08/14 | 16                     | 55.82       | Clerical Officer 1 |
| 27/08/14 | 21                     | 1,402.70    | JV not approved    |
| 27/08/14 | 20                     | 302.00      | JV not approved    |
| 05/09/14 | 04                     | 636.00      | JV not approved    |
| 05/09/14 | 03                     | 90.00       | JV not approved    |

The audit further noted that the journal vouchers did not include any supporting documents. Refer to Table 27.10 for examples.

**Table 27.10: Examples of Journal Vouchers with no Supporting Documents**

| Date                       | Journal Voucher Number | Amount (\$)      | Approved By                |
|----------------------------|------------------------|------------------|----------------------------|
| 23/01/15                   | 85                     | 5,287.00         | Accounts Officer           |
| 23/01/15                   | 86                     | 3,812.02         | Accounts Officer           |
| 28/01/15                   | 88                     | 1,900.00         | Principal Accounts Officer |
| 28/01/15                   | 89                     | 500.00           | Principal Accounts Officer |
| <b>Total (Sample Only)</b> |                        | <b>11,499.02</b> |                            |

The findings indicate lack of monitoring by the Principal Accounts Officer on the processing of journal vouchers. Hence there is a high risk of fraudulent or incorrect journal entries passed and processed into the FMIS (general ledger.)

The committee was informed that when these journal vouchers were posted, they were not certified and signed by the respective officer, and was on oversight on the Ministry's part. It was also noted that the Ministry had other related disciplinary matters that was taken at that time, that is, the Principal Accounts Officer at that time, had migrated.

The Committee concurs with the Auditor General's recommendations that the Permanent Secretary should investigate and take appropriate action against Principal Accounts Officer for not controlling and monitoring the processing of journals.

### 27.11 Anomalies in New Appointments

The Constitution of the Republic of Fiji Section 127(8) states that The Permanent Secretary for each Ministry, with the agreement of the Minister responsible for the

Ministry, has the authority to determine all matters pertaining to the employment of all staff in the Ministry, including:

- the terms and conditions of employment;
- the qualification requirements for appointment and the process to be followed for appointment, which must be an open, transparent and competitive selection process based on merit;
- the salaries, benefits and allowances payable, in accordance with its budget as approved by Parliament; and
- the total establishment of the total number of staff that are required to be appointed, in accordance with the budget as approved by Parliament.

The audit noted that the Permanent Secretary for Social Welfare, Women, and Poverty Alleviation created 29 positions without consultation and approval of the line Minister. The Ministry had total of 149 established and 33 unestablished staff positions approved in its 2014 budget. However the Ministry had a total of 211 staff which included 158 established and 53 unestablished staffs.

The audit also noted that the Permanent Secretary for Social Welfare, Women, and Poverty Alleviation appointed 9 Officers at lower level after the positions became vacant on promotion and acting appointment to the newly created positions.

However the Ministry did not recruit these Officers through an open, transparent and competitive selection process based on merit. Refer to Table 27.11 for details of appointments.

**Table 27.11: Details of Staffs Acting and Temporary Appointments**

| Number | Positions            | Acting/Promoted to   |
|--------|----------------------|--|
| 1      | Clerical Officer 5   | Acting Human Resource Officer/ Post Processing Unit                    |
| 2      | Admin Officer        | Senior Admin Officer (Corporate)                                       |
| 3      | Executive Officer    | Admin Officer -Women/Office Superintendent- Civic Towers               |
| 4      | Clerical Officer 6   | Admin Officer -Logistics/Operations                                    |
| 5      | Clerical Officer 7   | Executive Officer - Logistics/Transport                                |
| 6      | Clerical Officer 8   | Assistant Accounts Officer   |
| 7      | Clerical Officer 9   | Assistant Accounts Officer (Women- Payments)                           |
| 8      | Clerical Officer 10  | Executive Officer - Training   |
| 9      | Clerical Officer 11  | Executive Officer - Accommodation/Registry                             |
| 10     | Attachee 1           | TRCO- Women Reconciliation   |
| 11     | Attachee 2           | TRCO-PBS/FA/Food bank - Reconciliation                                 |
| 12     | Data Clerk           | TRCO-PBS/SPS/Food bank   |
| 13     | Driver 1             | 1- Nasinu, 1-Ba, 1-Nausori, 1-Korovou, 1-Corporate, 1-Beggars, 1-Women |
| 14     | Driver 2             |  |
| 15     | Driver 3             |  |
| 16     | Driver 4             |  |
| 17     | Driver 5             |  |
| 18     | Driver 6             |  |
| 19     | Driver 7             |  |
| 20     | NEC Attachee 3       | Stationary, Registry, Records  |
| 21     | NEC Attachee 4       |  |
| 22-28  | 7-Part-time Cleaners | Tavua, Nausori, Labasa, Lautoka, Ba and Korovou.                       |
| 29     | Attachee 5           | TRCO - Ledgers   |

The Ministry recruited additional staff on the understanding that the Ministry of Finance will increase the budgetary allocation. However the Ministry of Finance

did not approve the increase in payroll budget and advised the Ministry to cease the new appointments. The Ministry did not adhere to the advice from the Ministry of Finance and continued to employ additional staffs.

In addition the Permanent Secretary for Social Welfare, Women, and Poverty Alleviation appointed a Consultant for the National Child Helpline without the approval of the line Minister. The Ministry did not use competitive selection and tender process and a comprehensive cost-benefit and needs analysis was not carried out prior to the appointment of the Consultant. Furthermore the contract signed by the Consultant and the Permanent Secretary on 9/5/14 was not signed-off by the Solicitor General.

The Permanent Secretary for Social Welfare, Women, and Poverty Alleviation did not follow proper procedures for creating new positions and making appointments on acting and temporary relieving basis. In the absence of proper approvals, the acting and temporary relieving appointments were unauthorized.

The committee was informed that at the time of the audit, the Ministry did not have the workforce needed to meet the demand as expected of ours and secondly, the Ministry did not have a proper SOP system in place to ensure that there is evidence. However, now there is an SOP in place with the concurrence of the Minister together with a written document to ensure that whatever position is being recruited, there is also the concurrence. At that time, the office did not have it as some of it was done verbally, and these were some of the laxities, to be honest, on the Ministries part.

The Committee was further informed that the Ministry had to establish an Executive Support Unit for their Minister, so we had to pull funding from here and there, to ensure that this is being done. At the end of the day, we had to submit to higher authorities and we know that we had to do it. It was in the true spirit of actually building up a workforce ready to serve the disadvantage and also the women and children.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure that:

- All new appointments are made in consultation and approval of the line Minister;
- All recruitments are undertaken through an open, transparent and competitive selection process based on merit;
- Approval from the Ministry of Finance is obtained for increase in payroll budget for new positions;
- Funds from other SEG's are not vired for the payment of wages and salaries;
- All appointments made without proper approval and funding is reversed; and
- The matter is investigated and appropriate action is taken against those responsible for unauthorized appointments and payroll expenses.



## 27.12 Over Expenditure in Payroll

Each year, the Appropriation Act and Budget Estimates set out details of the appropriations that Cabinet approves for spending by each agency. No officer may incur expenditure, which results in the agency's appropriation being exceeded without the authorization of the Ministry of Finance, pending approval by Cabinet. (Finance Instruction 2010 Section 7)

The Ministry was allocated a total of \$3,478,881 and \$424,422 for the established staff and the government wage earners respectively in its original budget for 2014. However the Ministry's actual payroll expenses in 2014 increased by 27.9% or \$810,289 and 22.4% or \$110,293 for the established staff and government wage earners respectively compared to 2013. The Ministry overspent both the allocations in the year 2014.

The Ministry vired funds from Care and Protection Allowance, Welfare Graduation Program, Expanded Food Voucher Program, Poverty Benefit Scheme, Commission Charges, Power Supply, Office Supplies and Telecommunication allocations to meet the over expenditure in payroll allocations. Refer to Table 27.12 for details.

**Table 27.12: Details of Over Expenditure**

| SEG          | Item                | Original Budget (\$) | Actual Expenditure (\$) | Over Expenditure (\$) | Allocation Funds Vired From (\$)                      | Amount (\$)    |
|--------------|---------------------|----------------------|-------------------------|-----------------------|---|----------------|
| 1            | Established Staff   | 3,478,881            | 3,711,554               | 232,673               | Care and Protection Allowance<br>1-24202-91011-060309 | 307,170        |
|              |                     |                      |                         |                       | Welfare Graduation Program<br>1-24101-24999-100117    | 38,741         |
|              |                     |                      |                         |                       | Expanded Food Voucher Program<br>1-24202-91011-060699 | 27,493         |
|              |                     |                      |                         |                       | Poverty Benefit Scheme<br>1-24202-91011-060308        | 20,000         |
| 2            | Unestablished Staff | 424,442              | 603,724                 | 179,282               | Commission Charges<br>1-24202-91011-050399            | 11,101         |
|              |                     |                      |                         |                       | Power Supply<br>1-24201-24301-040421                  | 2,900          |
|              |                     |                      |                         |                       | Telecom<br>1-24202-91011-030401                       | 2,350          |
|              |                     |                      |                         |                       | Office Supplies<br>1-24101-24999-040203               | 1,200          |
|              |                     |                      |                         |                       | Telecom<br>1-24201-24301-030401                       | 1,000          |
| <b>Total</b> |                     | <b>3,903,323</b>     | <b>4,315,278</b>        | <b>411,955</b>        |   | <b>411,955</b> |

The Ministry incurred additional payroll costs due to unauthorized appointments of additional 29 staffs. The funds were diverted from allocations which were specifically budgeted for the needy people by the Parliament. Hence the public funds were not used by the Ministry for the purpose it was allocated for by the Parliament.

The committee was informed that these programmes were actually established but there was no allocation made for the workforce, for the implementation of the

programmes. So that was the challenge that we, as a Ministry, had to deal with to ensure that this is executed within the best spirit and we had to make do of what we can within the funding provided to us.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Ensure that funds from specific programs are not vired for the payment of wages and salaries;
- Seek approval from Ministry of Finance prior to appointments made; and
- Investigate the matter and take appropriate action for diversion of funds.

### **27.13 Unauthorized Project Posts for the Executive Support Unit**

Employment decisions in the public service are made without patronage, favoritism or political influence, and appointments and promotions are made on the basis of merit after an open, competitive selection process.<sup>15</sup>

Before either a letter of appointment or contract of appointment is issued, a candidate selected for appointment must undergo medical examination and be passed as being in all respects physically and mentally fit by an authorized Medical Officer. (General Orders 2011 Section 203[a]) The employee must have a satisfactory police record. (General Orders 2011 Section 203[b])

The Public Service Commission (PSC) carried out a functional review for the Ministry and recommended for an Executive Support Unit (ESU) and Monitoring and Evaluation Unit (MEU) to be established. The PSC also recommended total of 7 additional staffs comprising of 1 Principal Level, 2 Senior Administrative Officers and 1 Administrative Officer for ESU and 1 Principal Level, 1 Senior Administrative Officers and 1 Administrative Officer for MEU.

The Ministry created 4 project posts following the functional review which comprised of 2 Administrative Officers, 1 Clerical Officer and 1 Data Operator. The review of the recruitment of 4 project posts revealed the following anomalies.

The 7 project posts recommended by the PSC were not approved by the Minister for Social Welfare, Women, and Poverty Alleviation. However the Permanent Secretary for Social Welfare, Women, and Poverty Alleviation appointed 4 project officers. The appointments made by the Permanent Secretary for the ESU was unauthorized.

The Ministry did not obtain approval from the Ministry of Finance for additional funds for the project Officers. The Ministry diverted funds from the Care and Protection Allowance, Welfare Graduation Program, Expanded Food Voucher Program and the Poverty Benefit Scheme allocations to pay the project officers.

The Ministry did not advertise the project posts in the local dailies. The 4 project officers were recruited by the Ministry from the NEC (National Employment Centre) without interviews. The Ministry appointed 2 of the 4 project officers directly from NEC to ESU while the other 2 were appointed from the NEC on temporary posts and transferred to the ESU. In addition the Ministry did not obtain the Police and medical clearance for the Project Officers recruited.

The MQR for the Administrative Officer position was an undergraduate Degree in Management and Public Administration, Business Administration or equivalent with relevant work experience.

However details such as qualification and work experience were not kept in the Project Officers personal files. The audit could not ascertain whether the Project Officers appointed met the MQR.

The Ministry did not follow proper recruitment procedures for appointing Project Officers. The Ministry may not have recruited Project Officers based on merit.

The committee was informed that the Ministry did a Virements request from MOE at that time to assist us. The Ministry of Economy had given the Ministry of Women that Virements of \$307,110. Before the post was advertised, the Ministry had recruited some competent officers which had done the performance assessment. These officers came into the system and then through their performance the Ministry then recruited them through advertising the position on the PSOC and *Fiji Times* in that year.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should ensure that:

- All new positions are approved by the Minister for Social Welfare, Women, and Poverty Alleviation;
- Approval from the Ministry of Finance for additional funds is obtained prior to any new appointment;
- Proper recruitment procedures are followed for appointment of officers which include advertising the vacant position, interviews, police and medical clearance etc.; and
- Personal details of the Officers recruited are maintained in their respective files.
- The Minister for Social Welfare, Women, and Poverty Alleviation should investigate the matter and take appropriate action.

#### **27.14 Anomalies in the Recruitment of Principal Administrative Secretary (PAS)**

Public Service Act 1999, Part 2 Section 4(2) stipulates employment decisions in the public service are made without patronage, favoritism or political influence,

and appointments and promotions are made on the basis of merit after an open, competitive selection process.

The Ministry appointed the Senior Administrative Officer at the ESU in the Ministry on transfer from PSC with effect from 14/2/14 to 24/3/14. However, the position of the Senior Administrative Officer at the ESU in the Ministry did not exist from 14/2/14 to 23/3/14.

In addition, the Senior Administrative Officer's personal file did not have any details on posting from 14/2/14 to 24/3/14. Hence the Senior Administrative Officer's appointment was not valid. The Ministry paid \$3,082.94 as salaries to the Senior Administrative Officer for the period 14/2/14 to 24/3/14.

The Ministry created the Project Enhancement Coordinator position so that the Principal Administrative Secretary position becomes vacant and to be filled by the Senior Administrative Officer's appointment. The Ministry did not follow proper recruitment procedures while appointing the Senior Administrative Officer to the position of Principal Administrative Secretary.

The committee was advised that the Ministry had gone through the process. Before the PAS came into the system, she was employed by the Public Service Commission and was transferred to the Ministry. This is due to the functional review report that she had to come and assist in the upgrading of the processes and systems within the Ministry.

During that time the Senior Admin Officer was on leave and then the officer then was given the opportunity to act as Principal Admin Secretary, thus the contract of the previous Senior Admin Officer had expired and this post was advertised. The officer who was acting was given the opportunity to apply and then she went through the recruitment and selection and was appointed as PAS Corporate.

The Committee agrees with the Auditor General's recommendations that the Permanent Secretary should ensure that:

- All new positions are approved by the Minister for Social Welfare, Women, and Poverty Alleviation and approval from the Ministry of Finance for additional funds is obtained prior to any new appointment;
- Proper recruitment procedures are followed for appointment of officers which include advertising the vacant position, interviews, police and medical clearance etc.; and
- Personal details of the Officers recruited are maintained in their respective files.

## **27.15 Anomalies in the Recruitment of Project Enhancing Coordinator**

The Equal Employment Opportunity Policy is intended to provide all Public Service officers with a guide to fairness and equity in employment decisions in the areas of recruitment, promotion, transfer and training on the basis of merit. (General Orders 2011 Section 4[2])

Vacant posts will normally be advertised in the Fiji Public Service Official Circular and the press. Certificate of availability of funds from the Ministry of Finance should be obtained before any substantively vacant post is advertised. (General Orders 2011 Section 205)

The Principal Administrative Secretary was appointed in the Ministry since 23/4/11. The Ministry created Project Enhancement Coordinator's position and transferred the Principal Administrative Secretary to this position on salary \$42,524 for a period of one year effective from 1/4/14. The Ministry then appointed the Senior Administrative Officer as the Acting Principal Administrative Secretary for Corporate on salary \$39,452 for a period of 3 months with effect from 25/3/14.

The audit noted that the Project Enhancement Coordinator's position was not approved by the Minister for Social Welfare, Women and Poverty Alleviation.

The audit also noted that the position of Project Enhancement Coordinator was not advertised and no interviews were conducted. The Ministry did not follow open and competitive selection process when appointing the Project Enhancement Coordinator.

The MQR for the post was for the Officer to have Bachelor of Arts in Economics or Management/Industrial Relations in the area of planning and development and computer literate (Microsoft Word, Excel, PowerPoint).

However the Project Enhancement Coordinator's personal file did not have any record of his qualification. The audit could not substantiate whether the Project Enhancement Coordinator met the MQR.

The findings show that the Ministry did not follow proper recruitment procedure. The Ministry may not have recruited the Project Enhancement Coordinator based on merit.

The committee was informed that the Officer who was holding the position of the Senior Admin Officer was on leave. Then they had to do a sideways transfer for the Senior Admin Officer from PSC, to assist in the progress of the processes and procedures of the Ministry at that time. It was noted that this movement was actually from the Minister but did not have any written evidence. So the new creation of the position, in fact, the PAS coming in from PSC was more or less a

sideways transfer and the transfer of the post holder, that time was basically of poor performance which was the main issue of this audit finding.

Certainly there was a need to make an appointment because the Ministry was under review at that time and had to fast-track the functional review by the Public Service Commission. The person who came into the Ministry was actually the one who did the functional review of the Ministry and under the functional review; there were three categories of recommendations– Immediate, Mid-term and Long- term. Therefore, the Ministry would be penalized if we did not implement the immediate recommendations.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should ensure that:

- All new positions are approved by the Minister for Social Welfare, Women, and Poverty Alleviation and approval from the Ministry of Finance for additional funds is obtained prior to any new appointment;
- Proper recruitment procedures are followed for appointment of officers which include advertising the vacant position and interviews conducted; and
- Personal details and the MQR of the Officers recruited is maintained in their respective files.

#### **27.16 Anomalies in the Appointment of Temporary Relieving Clerical Officers**

The Equal Employment Opportunity Policy is intended to provide all Public Service officers with a guide to fairness and equity in employment decisions in the areas of recruitment, promotion, transfer and training on the basis of merit. (General Orders 2011 Section 1224[b])

Before either a letter of appointment or contract of appointment is issued, a candidate selected for appointment must undergo medical examination and be passed as being in all respects physically and mentally fit by an authorized Medical Officer. (General Orders 2011 Section 203[a])The employee must have a satisfactory police record. (General Orders 2011 Section 203[b])The

The Ministry had 23 and 16 NEC attaché's during the year 2013 and 2014 respectively. The audit noted that the Ministry appointed 20 of these attaches as TRCO's positions without advertising the positions for TRCO's to seek applications from other suitable applicants.

The audit also noted that the Ministry did not interview the attaché's before appointing them as TRCO's. In addition Police and Medical Clearance were also not obtained prior to the appointment of these Officers.

The committee was informed that during that time, PSC had given all their appointments to the Permanent Secretaries under the 2013 Constitution. As for the Ministry, we had to gain our appointments through the National Employment

Centre (NEC) and there was an internal interview done for those NEC attaché's. Once we know that they have met the minimum criteria, and then we recruit them temporarily because there were posts that were vacant and they had to be filled in order for the Ministries services to be effectively delivered to our customers and to our clients as well.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Ensure that proper recruitment procedure is followed for recruiting TRCO's into the civil service; and
- PSC should investigate and take appropriate action against those responsible for recruitment of TRCO's without following proper recruitment procedures.

### 27.17 Anomalies in Acting Appointments

Acting Appointments can only be made when the substantive holder of the post will be absent for more than a month. (General Orders 2011 Section 413) Acting allowance will be paid at a rate equal to 95 percent of the difference between the substantive salary and the minimum salary of the higher office. (General Orders 2011 Section 416)

The Ministry appointed 3 Clerical Officers on Acting Assistant Accounts Officer positions for 7 months even though there were no vacant positions for Assistant Accounts Officer. The Acting appointments were made by the Permanent Secretary. Refer to Table 27.15 for details.

**Table 27.15: Details of Acting Allowance Paid**

| Clerical Officer            | Acting Period     | Substantive Salary (\$) | Acting Salary Scale (\$) | Acting Allowance Paid <sup>28</sup> (\$) |
|-----------------------------|-------------------|-------------------------|--------------------------|--|
| Clerical Officer 2          | 8/5/14 – 31/12/14 | 13,191                  | 21,497                   | 5,137.63                                 |
| Clerical Officer 3          | 8/5/14 – 31/12/14 | 13,191                  | 21,497                   | 5,137.63                                 |
| Clerical Officer 4          | 8/5/14 – 31/12/14 | 13,191                  | 21,497                   | 5,137.63                                 |
| <b>Total allowance paid</b> |                   |                         |                          | <b>15,412.89</b>                         |

The audit also noted that the Ministry diverted funds from Care and Protection Allowance, Welfare Graduation Program, Expanded Food Voucher Program and the Poverty Benefit Scheme allocations totaling \$15,412.89 to pay for the acting allowance.

The audit further noted that the Ministry ceased the acting appointments from 1/1/15 on the directive of Ministry of Finance as there were no funds available in SEG 1 of the Ministry's budget.

The findings indicate that the Ministry did not follow proper procedures for acting appointment. As a result the acting appointments were unauthorized which resulted in over expenditure in the Ministry's payroll expenditure.

The committee was informed that this refers to the shortage of human resource that we have in the Accounts Section as well. The Ministry did appoint one Assistant Accounts Officer but paid under project, to look after the Department of Women's financial accounts. The officer has been paid 95 percent for that acting position appointment.

When we want to vire funds, then again we just refer to the Finance Instructions which gives the power to the Permanent Secretaries both, Permanent Secretary for the respective Ministry and the Permanent Secretary for Economy. So when they authorize funds, it is only if they have identified the savings and it is authorized, then there is no matter of surcharge that comes in. As mentioned, when want to move funds into SEG 1 then, of course, this comes to the Ministry of Economy's for approval.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that acting appointment are only made against vacant positions; and
- Surcharge the Permanent Secretary for the acting allowances paid totaling \$15,412.89 for approving acting appointments resulting in over expenditure.

#### **27.18 Lack of Supporting Documents in Case Files**

A case file (hard copy) must be opened with the name of the applicant, case number in the system, address and contact details written on it. All documents provided by the applicant must be kept in the case file.<sup>2</sup>

The audit noted that the Ministry did not obtain and maintain birth certificates for all household members, hard copy of the completed application, bank account details and details of recipient's relationship with other members living in the same house for several PBS recipients case files. These documents are important to determine the applicant's eligibility for government assistance.

The audit also noted that the case files were not reviewed by the Welfare Officers to ensure adequate records were maintained in the deceased recipients' case files.

The Ministry did not obtain these documents even though these documents were necessary to assess the applicant's eligibility for government assistance. In absence of these documents people who are not eligible for PBS allowances may be receiving government assistance.



The committee was informed that the relevant document required for this assistance or the primary document is the birth certificate. Any applicant who wishes to apply for any Social Protection Programmes must provide the primary document, so the Poverty Benefit Scheme will only generate if there is a number on the birth certificate which is the primary key that is used.

This is the primary document, apart from that we would require, for example, in a household, we would require a birth certificate of other members of the family, bank details, if required. In many cases, the Ministry has come across when applicants would provide their birth certificate but for secondary documents, for example, birth certificate of children, they do not provide that. To make up for that, there is home visits which is one of the criteria for our programmes.

Furthermore, the home visit would verify whether the children are there. We would proceed with the process and they are reminded to provide those documents. Unfortunately many times, they do not provide those documents and sometimes we come across cases where they said, "No, the children are not registered." That is where the difficulty is and sometimes when we do not get those documents.

However, as mentioned, the committee was further advised that provision of the documents would be dependent on the applicants. In case if they do not provide because of the needs, when we verify with the home visit, then we see the children and whether there is a need, then we proceed with that, waiting for them to provide the secondary document. As long as they provide us with the primary document which is the birth certificate, the Ministry then can proceed and process those applications.

The other issue that we encountered, especially with documentation is the number of documents that come through our offices. At the moment, we have about 53,000 files, all Social Protection Programmes. Yes, I can understand that in the process of a day to day, some of the documents are misplaced or lost and this time, we had to ask them to provide us with copies of the documents.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Ensure that adequate supervision is provided to subordinate officers;
- Obtain necessary documents from the recipients such as birth certificate, bank details and recipients relationship with other persons living in the same house and maintain copies in the case files;
- Review and update case files periodically; and
- Investigate this matter further and take appropriate disciplinary action against those responsible for processing application for PBS allowance without necessary supporting documents.

## 27.19 Missing Poverty Benefit Scheme (PBS) File

The Officer in Charge of PBS allowance should properly maintain all the PBS files.

The audit requested the Officer in charge of PBS for a sample of case files for the recipients approved and terminated in 2014. However several case files were not provided for audit review. Refer to Table 27.16 for examples of files not provided for audit review.

**Table 27.16: Poverty Benefit Scheme Recipient Case Files Not Provided to Audit**

| Reference Number | Monthly Allowance (\$) | Yearly Allowance (\$) |
|------------------|------------------------|-----------------------|
| 101-106291       | 60                     | 720                   |
| 101-105428       | 60                     | 720                   |
| 101-100779       | 60                     | 720                   |
| 101-102983       | 60                     | 720                   |
| 101-107826       | 60                     | 720                   |
| 101-103654       | 60                     | 720                   |

The PBS case files were not properly maintained by the Ministry and were missing. There is a high risk of fictitious recipients of PBS allowance.

It was further noted by the Committee that the Ministry continuously reminds their officers, not only through communication and written communications but also meetings with the senior management we continue to remind them of the importance of documentation. Likewise, the Ministry has tried their best to procure the proper equipment for them to be able to keep their case files. Also, the Ministry is in need of office space because keeping that number of files in an office takes a lot of space and if you visit our office, you will notice how our office is situated, all files are all over the place, file cabinets are full and that is the situation that we are in at the moment.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Ensure that recipient case files are properly maintained;
- Make an effort to locate the missing recipient case files; and
- Take appropriate disciplinary action against the Officer responsible for safe keeping of case files for not performing his/her duties properly.

## 27.20 No Independent Verification of Other Sources of Income for the Recipients

The Care and Protection allowance and the Social Pension Scheme is an assistance provided by Government to assist underprivileged children who are below the age of 18 years and elderly persons who are seventy (70) years and above respectively.

The recipients of Care and Protection allowance and the Social Pension Scheme should not have any other source of income and should not be beneficiaries of superannuation payments such as FNPF Pension Scheme, Ex-Serviceman's After Care Fund, Government or Insurance. Similarly the recipients of other social welfare assistance are also not eligible for this assistance.

The Ministry maintains a register to record all the Care and Protection allowance and the Social Pension Scheme applicants verified with third party for other source of income.

The audit review of the register and the recipient's files revealed that the Ministry did not verify whether applicants for the Care and Protection allowance and the Social Pension Scheme have any other source of income or receiving any other form of government assistance. Refer to the Table 27.17 for examples.

**Table 27.17: Examples of Applications Processed Without Verifying Other Source of Income**

| Care and Protection Allowance |             | Social Pension Scheme |             |
|-------------------------------|-------------|-----------------------|-------------|
| File Reference                | Amount (\$) | File Reference        | Amount (\$) |
| 101_0010232                   | 105.00      | SU/SPS/1055/14        | 50.00       |
| 101_0010212                   | 30.00       | SU/SPS/1020/14        | 50.00       |
| 101_0009797                   | 25.00       | SU/SPS/1061/14        | 50.00       |
| 101_0000792                   | 100.00      | SU/SPS/1059/14        | 50.00       |
| 101_0011224                   | 25.00       | SU/SPS/1037/14        | 50.00       |
| 101_0009231                   | 110.00      | SU/SPS/977/14         | 50.00       |
| 101_0011833                   | 60.00       | SU/SPS/987/14         | 50.00       |
| 101_0011515                   | 30.00       | SU/SPS/1057/14        | 50.00       |
| 101_0005141                   | 25.00       | SU/SPS/1063/14        | 50.00       |
| 101_0011351                   | 80.00       |                       |             |

The finding shows that the Officers responsible for processing the applications for Care and Protection allowance and the Social Pension Scheme did not perform their duties properly. There is a high risk that the recipients of Care and Protection allowance and the Social Pension Scheme may have other source of income or government assistance while also receiving Care and Protection allowance.

The committee was informed that this was an issue when this initiative first started, however, the Ministry has been working with the Ex-Servicemen Fund

and if they could provide us with the list of their beneficiaries and them able to provide us with that.

Likewise, the Ministry has a signed MOU with FNPF to help us in trying to identify those especially old people who are superannuation beneficiaries. Those are the items that they have tried to address that issue and again in the form there is the statutory declaration where it says “before I sign it, I am telling you the truth” and we take that example because in some cases where we have old people from the islands, they mostly send us their applications so we do not have that face to face interview with them. So it depends on the declaration forms that they send to us which are endorsed by a significant person in the community, like the *Turaga-ni-Koro* and any Government civil servant in the community who could verify to us. Based on that, we process the applications. I admit even today, we still have a challenge with people under free assistance.

The Committee concurs with the Auditor General’s recommendations that the Ministry should ensure that:

- All applicants for Care and Protection allowance and the Social Pension Scheme are verified against other source of income or government assistance;
- All verifications undertaken for other source of income are recorded in the Register and the case files; and
- Appropriate disciplinary action is taken against officers failing to carry out verification of other sources of income.

#### **27.21 Care and Protection Allowance paid to Children at Different Rates**

The minimum amount to be paid for Care and Protection allowance is \$30 per month per child. The maximum amount of Care and Protection allowance is \$110 per month, regardless of the number of children.

The audit noted several instances of Care and Protection allowance paid by the Ministry at different rates without any justification. Hence all Care and Protection allowance beneficiaries were not paid at a fixed rate of \$30 per month. Refer to Table 27.18 for details.

**Table 27.18: Incorrect Rate of Care and Protection Allowance Paid to Children**

| Caregivers Reference Number | Anomalies  | Monthly Allowance to be Paid (\$) | Monthly Allowance Paid (\$) | Overpaid/ Underpaid (\$) |
|-----------------------------|--|-----------------------------------|-----------------------------|--------------------------|
| 101_0009797                 | The minimum allowance is \$30 and the Ministry approved only \$25                      | 30                                | 25                          | (5)                      |
| 101_0011224                 | The minimum allowance is \$30 and the Ministry approved only \$25                      | 30                                | 25                          | (5)                      |
| 101_0005141                 | The minimum allowance is \$30 and the Ministry approved only \$25                      | 30                                | 25                          | (5)                      |
| 101_0011351                 | Two children are receiving \$80 in total and the minimum for each recipient is \$30    | 60                                | 80                          | 20                       |
| 101_0000792                 | Three children are receiving \$100 in total and the minimum for each recipient is \$30 | 90                                | 100                         | 10                       |
| 101_0010232                 | Three children are receiving \$105 in total and the minimum for each recipient is \$30 | 90                                | 105                         | 15                       |

The audit also noted that the different rates of Care and Protection allowance were approved by the Assistant Director Family Services.

Due to different Care and Protection allowance rate used by the Ministry the beneficiaries were either overpaid or underpaid their allowances.

The committee has noted the explanation from the Ministry and has been advised that this issue is now resolved.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Ensure that same rate of PBS allowance is paid to all eligible beneficiaries;
- Ensure that any change in allowances is properly approved and is applied to all the recipients; and
- Investigate the use of 2 different rates for Care and Protection allowance and take appropriate action.

## 27.22 Anomalies in Social Pension Scheme

Social Pension Scheme is for elderly persons who are seventy (70) years and above, and have no source of income and are not the beneficiaries of superannuation payments such as FNPF Pension Scheme, Ex-Serviceman After Care Funds, Government or Insurance. Likewise, recipients of social welfare assistance such as the Care and Protection Allowance and Poverty Benefit Scheme will not be eligible for this assistance.

The Ministry was allocated a total of \$4,175,933 for Social Pension Scheme in its 2014 budget. Out of the total allocation of \$4,175,933 the Ministry used \$4,175,495 or 99.9% in 2014 to pay the Social Pension allowance to recipients.

The four Divisions namely Western, Northern, Central and Eastern are responsible for the Social Pension Scheme and each maintain their own records of recipient's details. The audit of Social Pension Scheme revealed the following anomalies:

- The Ministry must carry out timely reviews to evaluate the status of the recipients of the Social Pension to ensure that allowance is paid to the deserving recipients only.

The Ministry did not carry out any reviews of the status of the recipients of the Social Pension allowance. Hence the Ministry was not aware of the status of the recipients whether they were still alive and whether their financial status has improved.

There is a risk that the Ministry may be providing Social Pension allowance to people who do not deserve government assistance.

- The applicants for Social Pension Scheme must submit a completed application form to the Ministry. The Senior Welfare Officers must provide their recommendations on the application forms and submit the forms to the Director of Social Welfare for approval for payment of Social Pension allowance to the applicants.

The Senior Welfare Officers on several instances did not provide their recommendations in the application forms. However the applications were approved by the Director of Social Welfare, without the recommendations of the Senior Welfare Officers. Refer to Table 27.19 for examples.

**Table 27.19: Examples of Recipients without Senior Welfare Officers Recommendations**

| Recipient Reference Number | Amount (\$)   |
|----------------------------|---------------|
| SU/SPS/1057/14             | 50.00         |
| SU/SPS/977/14              | 50.00         |
| SU/SPS/1037/14             | 50.00         |
| SU/SPS/1063/14             | 50.00         |
| SU/SPS/1055/14             | 50.00         |
| SU/SPS/1061/14             | 50.00         |
| <b>Total (Sample Only)</b> | <b>300.00</b> |

Documents such as birth certificate and passport size photos need to be certified correct by a Justice of Peace or District Officers or the Head of Clan for those who reside in remote areas.

However on several instances the supporting documents such as applicant's passport size photos and copies of birth certificates were not certified correct by the Justice of Peace, District Officers or the Head of the Clan. The Ministry processed the applications without verifying the authenticity of the photos or the birth certificates. Refer to Table 27.20 for examples.

**Table 27.20: Examples of Supporting Documents not Certified Correct by Justice of Peace**

| Date of Application | Recipient Reference Number |
|---------------------|----------------------------|
| 06/01/14            | SU/SPS/1096/15             |
| 16/01/15            | SU/SPS/1100/15             |
| 02/01/15            | SU/SPS/1089/15             |
| 06/01/15            | SU/SPS/1097/15             |
| 06/01/15            | SU/SPS/1093/15             |
| 02/01/15            | SU/SPS/1098/15             |
| 02/01/15            | SU/SPS/1090/15             |
| 09/01/15            | SU/SPS/1092/15             |

The findings show that the Officers responsible for receiving the applications, reviewing for completeness and accuracy, making recommendations and approving the payment of government assistance did not perform their tasks diligently.

Hence proper procedures were not always followed in processing the application for payment of Social Pension allowance to the recipients. This may result in fraudulent payment of Social Pension allowance.

The committee was informed that for the cases that are approved by the Director, most of the cases come from the maritime islands which are through the District Officers Offices, so it is addressed to the Director of Social Welfare. In the format of application form, it does not ask for the recommendation of the Senior Welfare Officer, it asks for the recommendation of the Welfare Officer but the Senior Welfare Officer approves. In the case where an application comes through to the Directors office, all documents are verified then certified.

In the maritime islands, it is very hard to find a JP but a District Officer or doctor or whoever is there should be able to verify and when those applications come to my office, because of the need, I do not send it back to the relevant officers. The Director of Social Welfare, in his/her capacity exercise their discretion to make the approval there and then because of the need but before I do that I give it to one of my Welfare officers to make the recommendations, looking at the documentations and the form. If they are happy and satisfied with all the documentation, they will forward it to the Directors office. The Director then makes their discretions to make the approval instead of sending it back. For

example, it has to go back to Kadavu and it will take months to go back to our office in Kadavu to get verification, so that is an example that the Ministry used.

The Committee agrees with the Auditor General's recommendations that the Ministry should ensure:

- That review of the Social Pension allowance recipients status is carried out periodically;
- The Senior Welfare Officer reviews the application for Social Pension and provides his recommendations in the application form before it is submitted to the Director for decision;
- Third party checks with Fiji Ex-servicemen After Care Fund, FNPF and Ministry of Finance Pension Section to verify whether the applicants are also receiving any other form of government assistance; and
- Supporting documents submitted with the application form are certified correct by the Justice of Peace, District Officers or the Head of the Clan.

### **27.23 No Annual Review of the Schemes**

All approved cases will be subject to review; this will be done annually (from the date of approval) either through desk review or home visitation. The purpose for the reviews is to gather information on the current status of the case, which will determine the continuation of the assistance or its termination depending on the information that will be derived. In the review exercise recipients will be required to provide updated information on the status of each household members and other relevant information that will be required. (Poverty Benefit Scheme Standard Operating Procedures Section 10, Care and Protection Allowance Standard Operating Procedures Section 9, Social Pension Scheme Standard Operating Procedures Section 11.4)

The audit noted that the Ministry did not carry out the annual reviews of the Poverty Benefit Scheme, Social Pension Scheme and Care and Protection allowance either by desk review or by home visitation.

The finding indicates laxity of the Senior Officers to ensure annual reviews of the recipients is carried out. Without annual reviews the Ministry was not aware of the current status of the recipients. The Ministry may provide assistance to people whose status have changed and are no longer eligible for government assistance.

It was noted that the Ministry now does annual reviews but it was noted that all those Schemes - Social Pension, Poverty Benefit, there had been no annual reviews at that time. The committee was advised that this is part of the Ministry's activities annually that officers capture that in their work plan that they are to conduct interviews.



The five year plan is about is a total review of all the cases which means the Ministry will have to hire additional people to do the review for them. The review has been already conducted twice and so that is a different total annual review of all the Programmes. By the normal reviews which is supposed to be systematic review, those are done by officers annually, but it does not cover the whole number of recipients who are in the system.

The committee was informed that the Ministry tends to look back at how long they have been in the system so the Ministry goes back and review those cases that have been in there in the system for some time and then we gradually move to the nearest date that the Ministry have and that is the process that we follow.

There are three modes of payments. For those who have access to the banking facilities, we would require them to open a bank account once they apply. So once their bank account is provided we pay them through their accounts. That is for those who are accessible to the banking facilities. For those who are not accessible to the banking facilities, for example, like people in remote areas, we print them vouchers and these vouchers are something similar to a cheque book. It is printed six monthly so from January to June, we give them their vouchers for those particular months so every month they go to the post office and redeem those vouchers. They give their vouchers and we have an agreement with Post Fiji whereby they redeem those vouchers and they get their cash.

On certain occasions where they have no accessibility to the bank and they do not have accessibility to the post office, in those cases we send our officers and pay cash which is very seldom. I think there are only two locations where we send our officers to pay cash and that is right at Udu Point, Tawake side because there is no post office and Vatulele where they used to have postal agencies but because of some issues that happened to those postal agencies we used before, have closed down. So people have no options so we go to those places and pay them on cash. We pay them three months. Before we did that, *we discussed with them the best option so we pay them saying, "is it alright with you that we pay you on three months basis?" and they are happy with that so we followed that process.*

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- An annual review of all the recipients is carried out; and
- Appropriate disciplinary action is taken against Officers responsible for not reviewing the status of the recipients annually.

## **27.24 Poor Record Keeping for Grants to Non-Government Organizations**

The Non-Government Organisation (NGO) Secretariat shall compile the agenda for the committee meeting and distribute documentation/material for the meeting. He/she is responsible for all correspondence and distribution of documentation/information relating to the NGO Grants Scheme. (Ministry of Social Welfare, Women and Poverty Alleviation Finance Manual 2013, Section 3.1.3)

All approved grant applicant records shall be filed and maintained by the NGO Secretariat and a list forwarded to accounts for RIE processing. (Ministry of Social Welfare, Women and Poverty Alleviation Finance Manual 2013, Section 3.1.13)

Each file for Voluntary organization should have the project proposal, applications for grants, grants committee evaluation paper, signed appointment letter for the NGO committee and acquittals.

The audit noted that the minutes of the NGO committee, signed appointment letter of the NGO committee members, previous quarter acquittals and completion certificate for the constructions of the beggars home were not kept in the files for Church of Nazarene, Homes of Hope, Veilomani Methodist Home, Empower Pacific and St. Christopher's Home.

This finding indicates the Secretary to the NGO committee did not perform her duties properly. In the absence of these documents the Ministry did not have adequate information about the NGO's.

The committee was informed that at the time the audit was done, the Good Samaritan Inn which is the first home that the Ministry have for beggars was in its process. The committee noted that the Ministry had provided all information that was required by the audit on all the NGO grants that we provided for the NGOs that we work with. All that information was provided to them and that all files are now up to-date.

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Ensure that all project files are properly maintained by the Secretary; and
- Ensure that disciplinary action is taken against Officers responsible.

## **27.25 Grant Acquittals not Submitted to the Ministry By NGO's**

Acquittal reports must be prepared by the recipient of the grant and submitted to the agency that paid the grant. (Finance Instructions 2010 Section 16[8]) The acquittal report shall provide the following information:

- details of grant money expended and unexpended,

- grants objectives and targets achieved
- financial statement (audited if practicable) for grants of \$20,000 or more. (Ministry of Social Welfare, Women and Poverty Alleviation Finance Manual 2013, Section 3.1.17)

The Ministry provided grants to a number of NGO's. The audit noted that some of the NGO's did not provide acquittals for the full amount of grants given. Refer to Table 27.21 for details.

**Table 27.21: Grants Not Fully Acquitted**

| NGO Name                      | Grant Provided in 2013 | 2013 Grant Amount for which Acquittals not Provided | Grants Provided in 2014 |
|-------------------------------|------------------------|---|-------------------------|
|                               | (\$)                   | (\$)  | (\$)                    |
| Methodist Veilomani Boys Home | 12,500                 | 2,302.15  | 20,000                  |
| Saint Christopher's Home      | 15,000                 | 7,851.76  | 20,000                  |
| Saint Christopher's Home      | --                     | --  | 10,000                  |

The audit also noted that the Ministry did not take any action against Methodist Veilomani Boys Home and Saint Christopher's Home for not submitting the acquittals for the full grant amount and provided further grant of \$20,000 each in 2014. The audit further noted that the Fiji Netball Association did not provide the acquittals for the grant of \$10,000 given in 2014.

The Ministry did not take any action against the grant recipient's for non-submission of acquittals. The findings indicate that the Ministry was not vigilant in reviewing the acquittal reports and following up with grant recipients which did not submit acquittals. In the absence of acquittals there is risk of misuse of grant funds.

The committee was informed that the NGO grants we were provided with the \$200,000 grant annually and these are for NGOs that complement the work of the Ministry and this is the children's homes and all those NGOs. The issue with non-acquittal, in fact, it is non-acquittal; it is acquitted after the financial year because there is a long process that we take. Although the grants come to us, we will have to apply - RIE.

The committee was further advised that the RIE is a requirement that every agreement that we have with any NGO whether they have been ongoing NGOs, the process is that annually, we will have to go to SG's Office to be vetted. That is another process that takes some time. When these MOUs come back, it has taken almost sometimes half of the financial year, so that is only when we are ready to be able to distribute the funds.

The funds if it is more than \$20,000 we do not release the total funds, it is on phases. For example, if it comes at the end of the last six months, we can only release \$10,000. The balance of \$10,000 is only given when they acquit the \$10,000 and sometimes it carries forward to the next financial year and that is

why the anomalies were highlighted there, but to assure this forum we do not release any funds until all has been acquitted.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that acquittals for the full amount of grant given is provided by the grant recipients before providing further grants;
- Follow up with the NGO's who have not provided their acquittals; and
- Investigate and take appropriate disciplinary action against officers responsible for approving further grant without verifying how the previous grants were used.

## 27.26 Anomalies in Welfare Graduation Program

The Welfare Graduation Program followed a cabinet decision (Cabinet Decision No. 254 [SWD 9/1 CP(10) 206] on the subject of graduating recipients of Care and Protection Allowances after 5 years of being under state assistance. The Ministry engaged National Centre for Small and Micro Enterprises Development (NCSMED) for the Welfare Graduation Program. Under this program a minimum of \$2,000 was allocated for a recipient to start up a business. The Ministry budgeted \$461,259 for the Welfare Graduation Program. During the year 2014 the Ministry disbursed a total of \$337,410 to NCSMED.

A Memorandum of Understanding was signed between the Ministry and NCSMED for the implementation, training and monitoring of the program. Under the agreement NCSMED uses 20% of the \$2,000 on trainings and monitoring while 80% for Seed funding. Refer to Table 27.22 for details.

**Table 27.22: Apportionment of \$2,000**

| Purpose                 | Amount (\$)  |
|-------------------------|--------------|
| Seed Funding            | 1,600        |
| Training and Monitoring | 400          |
| <b>Total</b>            | <b>2,000</b> |

The review of the Welfare Graduation Program revealed the following anomalies.

- The proper management of expenditure is fundamental to ensuring value-for-money in service delivery to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of public funds and over-expenditure do not occur. (Ministry of Social Welfare Finance Manual 2013, Part 2)

The agreement between the Ministry and NCSMED did not state the grant amount or the number of recipients to be assisted by the Ministry through NCSMED. The Ministry was not able to ascertain the number of people to be assisted through the Welfare Graduation Program.

As a result the Ministry was not able to forecast as to how much would be spent on the implementation of the Welfare Graduation Program.

- A case file (hard copy) must be opened with the name of the applicant, case number in the system, address and contact written on it. A duplicate for all documents provided in the business plan by the applicant must be kept in the case file. (Welfare Graduation Program Procedures Section 5.3)

The Ministry did not maintain the recipients' case files properly for all the divisions of the Ministry. Details such as Income Generating Project (IGP) proposals, quotation, payment details and site visit reports were not filed in the recipients' case files.

The recipient files were not updated in the divisions because the Welfare Officers in the divisions did not receive adequate training and awareness on the Welfare Graduation Program Standard Operating Procedures.

- An annual review is to be conducted on the management and administration of the fund, budget proposals for the following year and long term planning of the Welfare Graduation Program. (Agreement between the Ministry and NCSMED, Clause 5)

The Ministry did not conduct an annual review of the Welfare Graduation Program at all during the year 2014.

- A separate bank account should be maintained for the purpose of project funds provided under any particular program.

NCSMED did not maintain a separate bank account for the funds provided by the Ministry under the Welfare Graduation Program as the agreement between the Ministry and NCSMED did not state that NCSMED was required to use a separate bank account to manage Welfare Graduation Program funds.

The \$337,410 grant that was provided by the Ministry for the Welfare Graduation Program was deposited in the NCSMED's Operating account. The audit could not verify the actual expenditure on the project at the time of visit to NCSMED on 21/5/15.

- The Ministry will deploy the required funds from the Welfare Graduation Program budget provision to the NCSMED for the seed grant to implement, monitor and evaluate the income generating project for the recipients. (Agreement between the Ministry and NCSMED, Clause 3)  
NCSMED did not fully utilize the funding provided by the Ministry for the year 2013 and 2014 under the Welfare Graduation Program. A total of 49 recipients were provided with the training however they were yet to be provided with the seed grant of \$1,600 each. Thus a total of \$78,400 was unutilized in the year 2013 and 2014. Refer to Table 27.24 for detail.

**Table 27.24: Details of Unutilized Funds for the Years 2013 and 2014**

| Year         | Number of Recipients yet to be Assisted | Amount Unutilised <sup>40</sup> (\$) |
|--------------|---|--------------------------------------|
| 2013         | 20                                      | 32,000                               |
| 2014         | 29                                      | 46,400                               |
| <b>Total</b> | <b>49</b>                               | <b>78,400</b>                        |

All payments made must be accurately charged to its correct ledger account. (Finance Instructions 2010, Section 14[1])

The Ministry used a total of \$16,000 from the Welfare Graduation Program allocation to make payments to the recipients of the Fire Victim Relief Program. The Ministry used the Welfare Graduation Program allocation due to savings in the Welfare Graduation Program.

The findings indicate that the Ministry did not adequately monitor the utilization of grant by NCSMED. Hence there is high risk of mismanagement of project funds.

The committee was informed that the Welfare Graduation Programme is the National Centre for Small and Micro-Enterprise for Development NCSMED gave \$0.5 million in 2016. This Programme is implemented by the very same officers. It is to help identify those recipients under the Care and Protection Allowance and those in the Poverty Benefit Scheme Allowance, to encourage them to take up some small income-generating programmes so that we can graduate them from the system. This is in partnership with NCSMED.

There is an agreement with NCSMED whereby we provide the funding, we work together, we identify the recipients and they conduct training and the training is on budget, how to do proposals, acquitting, et cetera. So we work together with NCSMED to fund these programmes and then the evaluation and monitoring is done by NCSMED, likewise our own people.

In each Division we have different number of candidates that we identify; we work together and train them. It is quite a long process because it is not like giving them money and expecting them to do well. In many cases, we have to hold them by the hand and take them through the processes and it is quite a

challenging process. It is quite slow in progress but that is how it is done. We work together with NCSMED and NCSMED does the monitoring with the officers from the Ministry

For the information the committee, the Ministry has done their SOP on this issue and all cases have files at the moment, and the Ministry's officers are on the field trying to monitor those cases. The committee was further advised that the micro-enterprises grant of \$1,000 will not apply to them if they are in receipt of these benefits.

The Committee agreed with the Auditor General's recommendations that the Ministry should ensure that:

- A dollar amount is stated in the contract with the number of recipients to be assisted in the contract;
- A mandatory training on the Welfare Graduation Program Standard Operating Procedures is provided to all Welfare officers so that recipients' case files are properly maintained for all the divisions;
- The Welfare Graduation Program Standard Operating Procedures include a record management template;
- A review of the Welfare Graduation Program is conducted annually;
- A clause is incorporated in the agreement with NCSMED for NCSMED to have a separate bank account to administer the Welfare Graduation Program funds;
- NCSMED submits a periodic (such as quarterly) report on the Welfare Graduation Program;
- The funds provided under the budget are used for the intended purpose only; and
- Appropriate disciplinary action is taken against responsible officers for poor management of Welfare Graduation Program.

#### **27.27 Accountable Advance not Cleared on Time**

A travelling officer shall recoup the travel advance within seven days of completing travel by submission of an acquittal report with supporting documents. If an advance has not been fully expended, the travelling officer must repay the balance within seven days of completing travel. (Ministry of Social Welfare, Women and Poverty Alleviation Finance Manual 2013 Section 10.1.11 and 10.1.12)

Where an advance has not been acquitted within seven days of travel, the Senior Accounts Officer shall effect recovery action through a salary deduction from the concerned officer's salary within six (6) fortnights. (Ministry of Social Welfare, Women and Poverty Alleviation Finance Manual 2013 Section 10.1.14)

The Ministry on 5/8/14 paid accountable advance of \$20,940 to Women Interest Assistant - Lomaiviti for funding Lomaiviti Women registered group in the National Women's Expo held from 6/8/14 to 8/8/14 at the Vodafone Arena in Suva.

The audit noted that the Women Interest Officer did not retire the advance within 7 days which was due on 15/8/14. However the Officer retired the advance 32 days later on 16/9/14 which was short by \$1,397.40.

The Ministry did not commence salary deductions from the Officer to recover the outstanding amount when she failed to retire the advance after due date.

The audit further noted that the Officer was terminated on 24/9/14 for misconduct which resulted in the loss of outstanding advance amounting to \$1,397.40.

The Ministry did not take any action to recover the outstanding advance of \$1,397.40 from the Officer. The findings indicate laxity of Senior Officers supervising retirement of advances. This has resulted in loss of public funds.

The committee was advised that all the accountable advances that have been listed had been cleared at the end of 2014. From 2015 until now, the Ministry has been imposing salary deductions for those who have not been acquitting, at least, within seven days. It was further noted that the officer responsible has been terminated from the Ministry as there was a particular fraud cases that had occurred.

The Committee agrees with the Auditor General's recommendations that the Ministry should:

- Ensure that accountable advance is cleared within 7 days from the date the Officers return to their station from official tours; and
- Surcharge the officer responsible for not commencing salary deductions for long outstanding advance.



## **Section 28: Ministry of Youth and Sports**

### **Role and Responsibilities**

The Ministry of Youth and Sports is responsible for:

- The formulation and implementation of policies and programs aimed at enabling youths to meet challenges of their generation and create a better future through informed choices; and
- The promotion and development of sports and its infrastructure both in the urban and rural areas in recognition of the important role of Sports in nation building, and to create a vibrant and highly competitive sports industry which will be economically beneficial to Fiji.

### **PART A: FINANCIAL STATEMENTS**

#### **28.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Youth and Sports resulted in the issue of an unqualified audit report.

#### **28.2 Statement of Receipts and Expenditure**

The Ministry collected revenue totaling \$75,731 and incurred a total expenditure of \$8,996,691 in 2014.

The total revenue increased by \$21,574 or 39.8% in 2014 compared to 2013 as a result of increase in Commission, recovery of OPR in previous years, sales of school farm produce surplus and miscellaneous revenue.

The total expenditure increased by \$3,612,297 or 67.1% in 2014 compared to 2013. The increase was mainly due to increase in operating grant provided to Fiji National Sports Commission and increase in special expenditure.

#### **28.3 Appropriation Statement**

The Ministry incurred expenditures totaling \$8,996,691 in 2014 against the budget of \$10,343,740 resulting in a saving of \$1,347,049 or 13%.

#### **28.4 Statement of Losses**

There was no loss of money recorded for the year ended 31 December 2014.

### **Loss (other than money)**

There was no loss of fixed asset recorded for the year 2014. However, items worth \$27,819.95 were written off, following the Ministry's Board of Survey conducted for the year ending 31 December 2014.

## **PART B: AUDIT FINDINGS**

### **28.5 Refurbishment of Youth Training Centre**

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur. (Ministry of Youth and Sports Finance Manual – 2013)

The Ministry of Youth and Sports awarded the contract for the refurbishment of the Youth Training Centre Band Hall Block to the Ministry of Infrastructure and Transport for \$100,000 VIP.

Review of the project files and the contract documents revealed the following anomalies:

- Under the contractual agreement, the Director Building and Government Architect (Agency within the MWTPU) is responsible for conducting fortnightly site meetings to provide an update on the construction of the project to the parties and other stakeholders and it shall be compulsory for all parties to attend the meeting.
- However there was no site meeting held with the Director Building and Government Architect on the project site for maintenance works carried out at Youth Training Centre Band Hall Block.
- The refurbishment work commenced on the 21/10/14 and was expected to be completed by 30/12/14.

However the refurbishment works were incomplete as at the date of audit on 28/05/15. The Contractor was still to complete the sound proof partitioning, the electrical works, installation of air condition units and the cabinets and lockers which was built as per the scope of work. The completion of the project was delayed by 5 months.

The Ministry of Youth and Sports appointed a Temporary Relieving Youth Officer, (EDP number 94936) who did not have any technical expertise and project management skills to monitor the project. In addition no progress reports were produced by the Officer.

The audit could not substantiate the utilization of the funds allocated for the refurbishment of Youth Training Centre as the Director Building and Government Architect failed to submit the acquittals.

The findings show that the Ministry does not have adequate project management and supervision skills. In the absence of proper project management and supervision, there is a high risk that the project may not be completed on time and within the budget estimate.

The committee was advised that the Ministry gradually improved its project management and supervision process to address inadequate management and supervision of its capital construction projects.

Effective from 1st December, 2015, the Ministry appointed a Project Officer (Capital) with adequate experience and technical skills in project management supervision to ensure completion of projects on time with reporting of projects and project meetings.

Thirdly, the Project Officer (Capital) was being further trained on project management at USP. The Project Management team now meets on a monthly basis with the Permanent Secretary for project implementation, updates and ensures site visits and meetings with contractors during progress phase of construction projects.

The refurbishment work was not completed on the due date. The Ministry of Infrastructure officials were responsible for the project. The Ministry had sent a memorandum on 25th May, 2015 to confirm that they had completed the refurbishment of the Youth Training Centre at Valelevu. The Ministry now ensure that for future agreements have a retention clause, and that a retention sum be deducted from the payment sum should the agreement not honored, except for the RFMF. We will also ensure that we strengthen our monitoring activities, particularly at the completion of each phase as stipulated in the Scope of Works.

The Committee agreed with the Auditor General's recommendations that the Permanent Secretary should:

- Ensure that site meeting with the Contractors are conducted for all the capital projects undertaken by the Ministry;
- Ensure that the Contractor completes the works as required in the scope of work and within the agreed timeframe;
- Ensure an experience Officer is assigned to monitor and supervise the project; and
- Consider providing adequate project management and supervision training to the Officers responsible for project management.

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## **28.6 Tender Not Called for Contracts Exceeding \$50,000**

A tender must be called for the procurement of goods, services or works valued at \$50,001 and more.

As part of the youth training program, the Ministry of Youth and Sports carried out upgrading works of the training facilities at Naleba Training Centre.

The audit noted that the Ministry engaged contractors to carry out renovation and extension works at Naleba Training Centre without calling for tenders even though the total contract amount exceeded \$50,000 for each of the contractors. Refer to Table 28.3 for details.

**Table 28.3: Details of Work Carried out by the Contractors**

| Works Carried Out   | Amount (\$)   |
|---|---------------|
| <b>Contractor 1</b>   |               |
| Construction of 2 Staff Quarters Naleba                                 | 50,000        |
| Extension of Current Classroom  | 16,000        |
| <b>Total Paid</b>   | <b>66,000</b> |
| <b>Contractor 2</b>   |               |
| Renovation and Extension of Current Dormitory into Administration Block | 40,000        |
| Extension of Current Kitchen Block                                      | 28,244        |
| <b>Total Paid</b>   | <b>68,244</b> |

The finding shows that the Ministry did not follow the proper procurement process when awarding the contracts for the renovation and extension works. Hence the contractors engaged by the Ministry may not be the best and most economical supplier.

The committee was informed that the Ministry ensured that the tender procedures are followed for all purchases of goods, services of works exceeding \$50,000 in compliance with the Finance Manual, Procurement Guidelines and Regulations. The Ministry also calls for an Expression of Interest to identify suitable economical contractor prior to engaging vendors for works significantly below \$50,000. All construction works now adequately scoped and verified with relevant stakeholders such as MIT, Rural Development, Ministry of Health and Local Government.

The Ministry has taken note of the recommendations highlighted however due to a limited timeframe and the fact that expenditure utilization of 60 percent was targeted by June 2014; our Northern Division Office has managed to obtain three quotations from contractors within Labasa for each project. Due to its geographical location and with a 25-kilometre distance from Labasa Town, most companies were not willing to provide quotations. Besides, accessibility to the Centre at that time during heavy rain was almost impossible as we had to cross a

four-foot deep creek in order to get to the Centre. Both the contractors were recommended by the other Ministries through consultations.

Submissions were made to the Ministry of Finance seeking de-requisitioning of funds with and the endorsement of the Permanent Secretary as the cost of this project was less than \$50,000, with an agreement signed, detailing the scope of work to be carried out.

The Committee agreed with the Auditor General's recommendations that the Ministry should:

- Investigate the matter and take appropriate disciplinary action against the Officers responsible for awarding the contract without calling for tenders; and
- Ensure that tenders are called for all purchase of goods and services costing more than \$50,000.

## **CHAPTER 5: Volume 4: Audit Report on the Economic & Infrastructure Sector**

### **Section 29: Ministry of Agriculture**

#### **Role and Responsibilities**

The Ministry of Agriculture is responsible for maintaining food security through the provisions of extension and research services both for livestock and crops, quick economic recovery through the implementations of Demand Driven Approach Programmes and other commodity projects, assisting in poverty alleviation by building capacity of farmers to increase productions, and sustainable management of natural resources through the flood protection programmes and other sustainable land management practices.

#### **PART A: FINANCIAL STATEMENTS**

##### **29.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Agriculture resulted in the issue of a qualified audit report. The qualifications were as follows:

- Included in the Trading and Manufacturing Account (TMA) Balance Sheet is TMA Surplus Capital Retained of \$2.26 million and TMA Surplus transferred to Consolidated Fund of \$220,629. The Ministry was not able to provide appropriate audit evidence to support the balances. As a result, the audit was not able to ascertain the accuracy and completeness of the Trading and Manufacturing Account as at 31 December 2014.
- There was an un-reconciled variance amounting to \$238,582 between the FMIS general ledger and TMA bank reconciliation statement. Accordingly, the audit was unable to ascertain the accuracy and completeness of the TMA Cash at bank of \$1.03 million as shown in the TMA Balance Sheet as at 31 December 2014.
- Included in the TMA Trading Account was Closing Stock of Finished Goods of \$1.01 million. The audit did not express an opinion on the accuracy and completeness of Closing Stock of Finished Goods as the Ministry did not carry out an independent stock take for the year ended 31 December 2014.
- The Ministry was not able to provide appropriate audit evidence to reconcile and ascertain the accuracy and completeness of the Trust Fund Cash at bank –Retention Fund (LWRM) balance of \$877,651 and Trust Fund – Retention Fund balance of \$269,813 as shown in the FMIS general ledger

with the Trust Fund balance \$390,248 reflected in the Trust Account Statement as at 31 December 2014. As a result, audit was not able to ascertain the accuracy and completeness of the Trust Account Statement of Receipts and payment (LWRM) for the year ended 31 December 2014.

- The Ministry did not carry out a Board of Survey for 2014. In the absence of a Board of Survey Report, the losses of fixed assets, if any, that occurred during the year could not be substantiated. As a result, audit was not able to ascertain the accuracy and completeness of the Statement of Losses for the year ended 31 December 2014.

## **29.2 Statement of Receipts and Expenditure**

The Ministry of Agriculture collected revenue totaling \$617,408 and incurred total expenditure of \$57.07 million in 2014

The increase in total expenditure by \$12.08 million or 27% in 2014 compared to the previous year resulted mainly from the following:

- Increase in wages and salaries by \$3.57 million or 23% was attributed to pay rise approved for civil servants for 2014, payments of overtime for the implementation of the capital projects and promotions and new recruitments made during the year.
- Operating and capital grants significantly increase from \$4.74 million in 2013 to \$10.97 million in 2014. This was largely due to the increase in grants for the Biosecurity Authority of Fiji and new grants given to the Navuso Agricultural School and the Agricultural Marketing Authority.
- Capital construction increased by \$1.9 million or 12% in 2014 mainly due to increase in expenditures for the on-going capital programs. Capital programs undertaken during the year were mainly related to the Crop Extension Services, Livestock Extension Services, Research, Irrigation Improvement and Land, Drainage and Flood Protection.

## **29.3 Appropriation Statement**

The Ministry incurred expenditures totaling \$57.07 million against the revised budget of \$62.36 million resulting in savings of over \$5.29 million.

## PART B: AUDIT FINDINGS

### 29.6 Dredging of Rivers

From 2010 to 2014, major dredging works, which cost over \$29.7 million, were carried out in four major rivers including Rewa, Navua, Nadi and Ba. The dredging of the rivers was to reduce damages caused through flooding. Refer to Table 29.8 for cost details.

**Table 29.8: Details of Cost**

| River                  | Contractor | Actual Cost<br>(\$)  | Unit Rate Per<br>Cubic Meter<br>(VIP)<br>(\$) | Approved Amount<br>(\$)   |
|------------------------|------------|----------------------|---|---|
| Rewa – Phase 1 (2010)  | Company A  | 7,167,140.45         | 5.12  | Initial approved amount \$8,952,788.89. Revised rate at \$7.34/cubic meter VEP with effect from 01/06/11.                           |
| Rewa – Phase 2 (2011)  |            | 3,014,987.71         | 8.26  |   |
| Navua – Phase 1 (2012) |            | 4,599,987.95         | 9.37  | 4,963,647   |
| Ba – Phase 1 (2012)    |            | 3,280,374.44         | 9.78  | 3,280,375   |
| Ba – Phase 2 (2013)    |            | 3,637,746.72         | 9.78/12.86                                    | The rate of \$8.50 VEP was charged for the first 218,259 cubic meters and rate of \$11.18 VEP was charged for 117,000 cubic meters. |
| Ba – Phase 3 (2014)    |            | 4,048,000            | 12.65   |   |
| <b>Total</b>           |            | <b>25,748,237.27</b> |   |   |
| Nadi – Phase 1 (2012)  | Company B  | 3,999,704.04         | 9.34  | 3,999,700   |

Tender was called for the dredging of the Rewa river in 2010, however, later waived including tenders for the subsequent dredging works for the Navua, Ba and Nadi rivers based on the following factors: - directive from the Office of the Prime Minister on the urgency to reduce the impact of flooding; readily available of dredging company in the country/locality and the satisfactory performance from previous dredging works.

The dredging of the Rewa, Navua and Ba rivers were assigned to *Company A* in which the company was paid a total of \$25.7 million from 2010 to 2014. The audit noted that the unit cost of the dredging per cubic meter charged by *Company 'A'* increased gradually for each dredging assignment. The initial rate charged was \$5.12 VIP for the Rewa River Phase 1 (2010) and increased by 147% to \$12.65 for the Ba River Phase 3 in 2014.

The audit noted that the Ministry was provided legal advice in 2011 which indicated that State is the rightful owner of dredged sand material and that the sale and use of sand material for commercial and development purposes can be determined by the Minister of Lands or the Director of Lands.

The audit could not confirm, as there was no evidence to indicate this, whether the Ministry together with other relevant government agencies have explored or developed any structured approach on the sale and/or utilization of sand excavated from the dredging of the rivers.



From information gathered and sited during the audit and by using the special rate of \$4.00 per cubic meter approved by Cabinet in 1997, the audit determined that substantial revenue could be derived from the excavated sand if managed appropriately. The market rate may be substantially higher than \$4.00 per cubic meter used in the calculation below. Refer to Table 29.9 for details.

**Table 29.9: Details of sediments (sand) extracted and value**

| River        | Phases | Volume(m <sup>3</sup> ) | Sand Rate (m <sup>3</sup> )<br>(Without Cartage) <sup>1</sup><br>(S) | Estimated Revenue<br>(S) |
|--------------|--------|-------------------------|--|--------------------------|
| Ba           | 1      | 286,265                 | 4.00   | 1,145,060                |
|              | 2      | 335,259                 | 4.00   | 1,341,036                |
|              | 3      | 320,000                 | 4.00   | 1,280,000                |
| Navua        | 1      | 503,049                 | 4.00   | 2,012,196                |
|              | 2      | 424,040                 | 4.00   | 1,696,160                |
| Rewa         | 1      | 1,370,687               | 4.00   | 5,482,748                |
|              | 2      | 344,360                 | 4.00   | 1,377,440                |
| Nadi         | 1      | 373,000                 | 4.00   | 1,492,000                |
|              | 2      | 360,000                 | 4.00   | 1,440,000                |
|              | 3      | 450,000                 | 4.00   | 1,800,000                |
|              | 4      | 428,500                 | 4.00   | 1,714,000                |
| <b>Total</b> |        | <b>5,195,160</b>        | <b>4.00</b>  | <b>20,780,640</b>        |

Potential government revenue may be lost in the absence of a clear and structured approach to the management and utilization of sand excavated from the dredging of the rivers.

The committee was informed that the Ministry had been expecting that the cost or the rates will vary according to the cost of what are beneath the river beds. In some of the estimates that are made preliminary, the Ministry's Engineers think there will be a lot of sand that are there that will be dredged but continuous changes in the sediments in the river beds do not allow the Engineers to make proper estimates. So that is why the reason why the cost varies because in some places there could sand but it has changed to gravel.

The Committee agreed with the Auditor General's recommendations that:

- If the tender process has been waived according to the Procurement Regulations, it is strongly recommended that the Ministry closely monitor the cost of dredging works. Any increase in unit rate per cubic meter should be properly documented, justified and approved before the commencement of dredging works.
- There is a need for proper and structured approach to proper management and utilization of sediments excavated from the dredging of the rivers.

*The Committee further recommends that the Ministry must ensure that it follows the proper tendering process for any of its undertaking and proper feasibility studies are carried out.*

## 29.7 Land Resettlement Estates

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur. (*Ministry of Agriculture Finance – Manual 2011 – Part 2: Expenditure*)

Cabinet on the 7<sup>th</sup> of April 1998 established the ALTA Land Development and Resettlement Unit as a special project within the Ministry to initiate the acquisition of properties, subdividing the same and issuing allotments to ex-ALTA tenants. The Ministry identified the following lands for the resettlement of ex-ALTA leased farmers. Refer to Table 29.10 for details.

**Table 29.10 Resettlement Land for Ex-ALTA Leased Farmers**

| Division | Land Re-settlement                  |
|----------|-------------------------------------|
| Central  | Raiwaqa I & II                      |
| Western  | Navovo                              |
| Northern | Navudi I, II & III and Vunicibicibi |

Land at the Raiwaqa Stages I & II in Navua have successfully been resettled. An audit follow-up was carried out on the resettlement progress in the Western and Northern Divisions as detailed below.

### **Navovo Resettlement**

The Navovo Estate (Native Lease) was obtained for 55 years with effect from 01/01/99. The first development 5 year lease was issued in 1999 after the Ministry paid \$465,761 as premium. The Navovo Estate Property has 51 fully developed surveyed subdivision lots totalling 431 hectares.

Another development lease agreement was signed between Government and the then NLTB on 15/07/05 and it expired on 31/12/08. The Ministry re-negotiated a 10 year development lease with effect from 01/01/10.

During this period, the following improvements were made: - grade 4 government quarters, bore-hole catchment, 4 large installed water tank sites, water reticulation pipe lines and electricity power poles.

The audit noted the following:

- Detailed supporting documents for the development costs of \$2.3 million incurred by the Ministry were not available or maintained in the files provided for audit review. Refer to Table 29.11 for detail:

**Table 29.11: Cost of Land Purchase and Infrastructure Development**

| Property | Land Purchase<br>(\$) | Total Survey and Development Costs (\$) | Total Costs (\$) |
|----------|-----------------------|---|------------------|
| Navovo   | 465,761               | 1,866,975                               | 2,332,736        |

- The Ministry deposited a \$150,000 (\$10,000 per farmer) grant with the Fiji Development Bank (FDB) for the 15 farmers initially identified to be resettled at Navovo. The grant was to serve as a deposit to facilitate further loans to the farmers to build houses and develop the allocated farm land. According to confirmations received from the FDB on 19/03/15, a sum of \$70,000 was unutilized and still maintained in the FDB suspense account.

The committee was advised that when the fund was within the Ministry and detailed monitoring was done on those activities that were supposed to be carried out, according to the funds released. However, as of now, since funding has stopped, the Ministry's Extension Division continues to visit the farms and provide certain level of assistance around the estates, yet they are still the Ministry's farmers and have assist them in whatever way the Ministry can.

- Although Navovo has 51 fully developed lots, only 4 farmers have utilised their allocated lots. As at April 2014, the Ministry has incurred \$109,474 as administrative fees and lease rental to I Taukei Affairs Board. The audit could not confirm whether the Ministry has taken actions to identify other potential farmers to be resettled at the proposed site.

### **Navudi Estates**

Navudi estate is located in the Seaqqa area with a total land area of 435.4 hectares divided in 60 farm lots. Stage 1 has 18 lots fully surveyed and registered, while stages 2 and 3 have 42 lots on scheme plan.

Detailed supporting documents for the development costs of \$3.2 million incurred by the Ministry were not available or maintained in the files provided for audit review. Refer to Table 29.13 for details.

**Table 29.13: Acquisition and Infrastructure Development Cost**

| Property          | Land Purchase<br>(\$) | Total Survey and<br>Development Costs<br>(\$) | Total Costs<br>(\$) |
|-------------------|-----------------------|---|---------------------|
| Navudi I          | 550,000               | 549,981                                       | 1,099,981           |
| Navudi II and III | 1,145,801             | 993,580                                       | 2,139,381           |
| <b>Total</b>      | <b>1,695,801</b>      | <b>1,543,561</b>                              | <b>3,239,362</b>    |

As at 31/12/14, only one farmer was occupying an allocated lot at the Navudi I estate.

### **Vunicibicibi Estate**

Vunicibicibi estate located beside the main Labasa/ Nabouwalu highway, has a total land area of 233 hectares with 32 farm lots, fully surveyed and registered.

Detailed supporting documents for the development costs of \$1.9 million incurred by the Ministry were not available or maintained in the files provided for audit review. Refer to Table 29.14 for details.

**Table 29.14: Acquisition and Infrastructure Development Cost**

| Property     | Land Purchase<br>(\$) | Total Survey and<br>Development<br>Costs (\$) | Total<br>Costs<br>(\$) |
|--------------|-----------------------|---|------------------------|
| Vunicibicibi | 761,996               | 1,174,803                                     | 1,936,799              |

The audit was informed that the Office of the Prime Minister has taken over the policy direction of the Vunicibicibi Estate. The land has not been resettled as at 31/12/14, however, a portion of land was used by a contractor as depot whilst constructing the Nabouwalu/Dreketi highway.

Discussions during the audit also indicated that the objectives to resettle ex-ALTA tenants whose leases were not renewed have not materialized because tenants opted to resettle in Vitilevu and the, remoteness of the locations of the estates.

With more than \$7.6 million in cost incurred for infrastructure development, annual land lease payments and general operation costs to implement the project, it is a concern that the major portion of land identified to resettle farmers remained unutilized or unoccupied.

The committee was informed that the changes that was taking place between who should be responsible for this particularly programme was the main cause of some of the loss of records within the two different Ministries. The Ministry was directed to pass over the Programme to the Ministry of Rural Development, together with all the papers and that was done, but through that particular process, the Ministry of Agriculture were not able to re-track some of the records

of the necessary because of the movements happening at that point in time. The committee also noted that the quality of land to resettle the ex-ALTA leased farmers, who were evicted from the ALTA land was not suitable for quality reasons such as the growing of basic crops and water.

The Committee agrees with the Auditor General's recommendations that:

- It is recommended that the Ministry undertake a proper review of the Land Resettlement Program and identify opportunities that will ensure the successful completion of the program or alternative for effective utilization of the developed land resources available.
- The Ministry should implement controls to improve records management for the Land Resettlement Program.

### **29.8 Dairy Farm Inspections**

The Minister may make regulations to provide for the proper management, control and sanitary conditions of dairies and premises used for the storage and sale of milk and the inspection of dairies. (*Laws of Fiji, Chapter 118, Dairies, Section 3:1:a*) Any inspector may at any time enter upon premises to which this Act applies for the purpose of carrying out the provisions thereof or of any regulations made thereunder. (*Laws of Fiji, Chapter 118, Dairies, Section 5*)

A total of 529 dairy farms are registered in Fiji. Our review of dairy inspection records in July 2015 disclosed that the Ministry did not always conduct routine inspection of dairy farms/facilities to check for proper dairy farm management, control and sanitary conditions and ensure compliance with the requirements of the law.

The audit also noted that the inadequate resources allocated could be a factor contributing to the current frequency of dairy inspections. At the time of audit, there was only one Dairy Inspector responsible for monitoring/inspecting of the 529 registered dairy farms in Fiji.

There is potential risk of dairy safety violations if dairy inspections are not routinely carried out.

The committee was informed that the Ministry has formulated a Standard Operating Procedure and there were continuous inspections on dairy farms. It should be noted that the Ministry have all the records of inspections being done and they are kept at the Dairy Inspectors Office in Koronivia. They also kept with them matrix that has got reports of all the inspections that had been done and they had also coordinated their work with the Extension Officers who were located in districts and provinces.

The committee was further advised that the Ministry had all the dairy farms inspected, unfortunately the office is trying to reconcile on the number of dairy

farms that are mentioned in the report of 529. The 307 plus dairy farmers have had continuous inspections were carried out. It should also be noted that all dairy farms are required to be registered annually but the inspections are carried out on very routine intervals. The Ministry's BTEC Team, who normally carries out very frequent testing on farms are also being trained to carry out dairy inspections and they do that while they are also doing TB testing.

The Committee concurs with the Auditor General's recommendations that:

- Efforts to enable routine inspections of dairy farms should be explored.
- Guidelines should be established to guide dairy inspectors and also to prevent dairy safety violations.
- It is also recommended that the Ministry develop a system of maintaining complete dairy inspection records to enable proper tracking of inspections.
- Appropriate resources should be allocated to allow dairy inspections to be conducted and tracked effectively.

### **29.9 Unutilized Agro inputs at the Lakena Stations**

Storage of inventories shall be the responsibility of the storekeepers. The storekeeper must ensure that adequate storage space is available for incoming stock as and when required; storage facilities are properly secured; stocks are kept in an orderly manner allowing for safe access; stocks are handled with care and well stored so as to reduce the risk of damage; and quantity of stock is closely monitored to avoid excess holdings or shortages. (*Ministry of Agriculture – Finance Manual 2011 – Section 8.2.1*)

A physical verification carried out by the audit on 30/06/15 at the Lakena Station revealed that 313 bags(20kg) of NPK fertilizer and 1,222 bottles of Glyphosate 450 (1 litre), provided by the Food and Agriculture Organization (FAO) for the disaster rehabilitation have not been distributed.

In addition, the audit noted that items purchased for the Vanilla, Cocoa and Rice Programs and the Agriculture Show prize were not distributed/slow moving and kept at the Lakena Station

Failure to utilize the agro inputs for its intended purpose and in a timely manner increases the risk of mismanagement and misappropriation of the items.

The committee was informed that at the time of audit, the Ministry noted that there was no storekeeper at that time so this issue was addressed that by recruiting a store-man who is now stationed at Lakena and checks are more routine.

With regards to the number of stock provided by Food and Agriculture Organization (FAO) have been, the committee was advised that the Ministry just could not move it without the green light from FAO because it was something that

was negotiated between the Ministry and the FAO based in Samoa and the buyers in New Zealand. There were some issues in regards to the packaging materials which was one of the reasons of spillage. Additionally, it was not really fit for the kind of condition in the Ministry's storage house which caused further delay in the distribution of those stocks that was given by FAO.

The Committee agrees with the Auditor General's recommendations that it is recommended that the Ministry carry out a routine assessment of inventories maintained at the Lakena Station and ensure that the agro inputs procured for projects or received as assistance are utilized on a timely manner for its intended purpose.

#### **29.10 Expired Drugs at the Veterinary Drugs Store**

It is vital that all expired drugs is boarded and removed in a timely manner to avoid negligence and vicarious liability. The Board of Survey Officers shall physically identify each item, note its working condition and verify its existence to the fixed assets register and expendable items register. (*Ministry of Agriculture – Finance Manual – Section 11.4.2*)

The Animal Health & Production (AH&P) Veterinary Store located in Vatuwaqa purchases and distributes veterinary drugs to animal health clinics in Fiji.

A physical stock take carried out on 03/03/15 at the Vatuwaqa Drugs Store revealed that the expired drugs valued at \$13,627 were kept in the store room awaiting disposal.

In addition, the audit also noted that the Ministry does not have in place standard operating guidelines for effective management of its veterinary drugs and disposal of expired drugs.

The committee was informed that the Ministry schedules their indent within three months can be used within the time before the expiry. The tried to master this in the last few years and have been successful with some of the drugs, unfortunately with the other drugs, the Ministry still have a lot of expired drugs and this depends on situations where some drugs may be used more in a year, it may not be used more for the next year, resulting in the issue of expired drugs.

It should be noted that the Ministry normally follows the pharmaceutical procedure way, it is normally taken back to the pharmaceutical board.

The Committee agreed with the Auditor General's recommendations that:

- It is recommended that the Ministry take appropriate steps to develop/review guidelines for effective management of its drug store and disposal of expired drugs.
- Expired drugs should be safely disposed-off.

## RECURRING AUDIT FINDINGS

### 29.11 Trading and Manufacturing Accounts

The Ministry under its Trading and Manufacturing Accounts provides the following services:

- 1) **Commercial Undertaking Livestock (CUT)** operates under the Animal Health & Production Division and is located at the AH&P Divisional Head office in Vatuwaqa. The unit has established market outlets throughout the country to promote services to the rural public with the assistance of extension officers. This includes drugs dispensing, livestock marketing and agro materials distribution to farmers.
- 2) **Crop Extension Machinery Operation Hire (CEMOH)** operates under the Crop Extension Division which is solely responsible for providing quality service to farmers by the hiring of the Agriculture Extension Machinery for land development to the farmers at affordable rate that would contribute to sustainable farming. These machine hire services consist of tractor, digger, mini rice machines, swamp dozer and wheel loader hire.
- 3) **Fuel & Oil** operates under the Crop Extension Divisions which supplies fuel & oil to other sections within the Ministry.

#### 29.11.1 Anomalies noted in the Trading and Manufacturing Account

Each agency operating a trading and manufacturing activity must prepare:

- (a) Quarterly profit and loss statement; an
- (b) A balance sheet on an annual basis.

The profit and loss statement and the balance sheet must be prepared on an accrual basis. (*Finance Instructions 2010 – Section 30 [1 & 2]*)

The annual profit and loss statements and balance sheet for each current financial year just ended must be prepared and submitted to the Auditor-General in a form suitable for audit and inclusion in the agency's annual report. (*Finance Instructions 2010 – Section 30 [3]*)

Annual boards of survey must be conducted by 3 officers who are independent of the officer responsible for the custody of the assets. A written record must be kept of each board of survey and must be signed and dated by the officers undertaking it. (*Finance Instructions 2010 – Section 49 [2]*)

Divisional Accountants, Assistant Accounts, Clerks and Recorders shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement. (*Ministry of Agriculture – Finance Manual 2011 – Section 16.3.3*) Any



errors or misallocations must be immediately adjusted by way of journal vouchers. (*Ministry of Agriculture – Finance Manual 2011 – Section 16.3.4*) The ledger reconciliation statement shall be forwarded to the Senior Accountant (Operations) weekly. The Divisional Accountants, Assistant Accounts, Clerks and Recorders must ensure that:

- I. All balances are accurate and adequately supported; and
- II. Any misallocations or outstanding balances from the previous month have been journalized to the correct allocation code.

Our review of the Trading and Manufacturing account of the Ministry revealed the following anomalies, most of which are recurring issues that have not been resolved by the Ministry from previous years:

- Included in the TMA Balance Sheet for Commercial Undertaking are TMA Accumulated Surplus of \$2,263,536 and TMA Surplus transferred to Consolidated Fund of \$220,629. The audit noted that the Ministry did not maintain adequate accounting records to provide sufficient and appropriate audit evidence to substantiate the balances reflected in the TMA Balance Sheet. As a result, audit was not able to ascertain the correctness of these amounts.
- A variance of \$22,227 was noted between the Ministry's inventory stock certificate report and the balance reflected in the FMIS general ledger as at 31 December 2014. Refer to Table 29.18 for details:

**Table 29.18: Variance in Stock Certificate and FMIS Balance**

| Particulars                 | Amount<br>(\$) |
|-----------------------------|----------------|
| FMIS GL - Inventory balance | 1,014,577      |
| Stock Certificate           | 992,350        |
| <b>Variance</b>             | <b>22,227</b>  |

In addition, reliance on the balance determined from the Ministry's stock take was limited as the stock takes were carried out by officers directly involved in maintaining and accounting for the stock without independent supervision. As a result, audit was not able to ascertain the correctness of the closing stock balance reflected in the financial statements. Refer to Table 29.19 for closing stock take details.

**Table 29.19: TMA Inventory Stock Balance As At 31 December 2014**

| Items         | Ministry's Stock Certificate balance (\$) |
|---------------|---|
| Pine Post     | 43,932                                    |
| Fencing Wires | 55,308                                    |
| Dairy Stock   | 163,250                                   |
| Beef Stock    | 60,268                                    |
| Pigs Stock    | 35,411                                    |
| SA Drugs      | 634,181                                   |
| <b>Total</b>  | <b>992,350</b>                            |

The above anomalies imply ineffective controls and lack of supervisory checks in the TMA operations hence the accuracy and completeness of the Trading and Manufacturing accounts could not be substantiated.

The Committee concurs with the Auditor General's recommendations that:

- The Ministry should maintain proper records and be able to provide evidence to substantiate accounts and balances reported in its Trading and Manufacturing Accounts.
- The Ministry should ensure that proper reconciliations are carried out and errors identified are investigated and adjusted accordingly.
- Annual boards of survey must be conducted by Officers who are independent from the custody of the TMA stock.
- The internal control procedures in the Accounts and TMA Section, specifically supervisory checks should be strengthened to avoid such discrepancies.

#### **29.11.2 Discrepancies in TMA Cash at Bank Reconciliation**

The Assistant Accounts Officer (AAO – Ledgers) and the Bank Reconciliation Clerk shall prepare a bank reconciliation within 5 days of the end of the month. Details of un-presented cheques and other reconciling items should be attached to the reconciliation statement. Once the bank reconciliation is prepared, it should be signed and dated by the Bank Reconciliation Clerk and AAO (Ledgers) and submit to Ministry of Finance through Senior Accounts Officer (Operations). The AAO (Ledgers) must verify balances in the bank reconciliation to the cashbook, bank statements, un-presented cheque list and the previous month's bank reconciliation before certifying it. (*Ministry of Agriculture – Finance Manual 2011 – Section 7.4.7 to 7.4.10*)

All bank accounts must be reconciled monthly. The bank reconciliation shall list all outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (*Finance Instructions 2010 – Section 32[6]*) The Principal Accountant shall appoint three officers to be part of a Board of Survey to conduct

a physical stock-take of all money on hand and other stock held in safes. (*Ministry of Agriculture – Finance Manual 2011 – Section 7.2.1*)

When the operation of Trading and Manufacturing Accounts are approved by the Minister of Finance, a financial ceiling is set for the purposes of operating this account and at no point in time the Chief Accounting Officers who are controlling officers responsible for the operation of this account in the department/ministry can exceed the financial ceiling, as this may be unauthorized and officers responsible may be liable for a surcharge. (*Finance Circular No. 37 dated 26/11/1984*)

From the review of monthly TMA bank reconciliation statements and related cash at bank records, the audit was not able to substantiate the accuracy of cash at bank balance as at 31 December 2014 as supported by the following:

- A Board of Survey was not conducted at year end for the TMA cash on hand balance.
- A variance of \$140,057 was noted between the cash at bank balance according to the TMA bank statement and the balance recorded in the FMIS general ledger at 31 December 2014. Refer to Table 29.20 for details.

**Table 29.20: Variance in Cash at Bank and FMIS Balance**

| Particulars         | Amount<br>(\$) |
|---------------------|----------------|
| FMIS general ledger | 1,031,806      |
| Bank statement      | 891,749        |
| Variance            | 140,057        |

Furthermore, a variance of \$238,582 was noted between the TMA cash at bank balance and the cash balance reported in the FMIS general ledger as at 31 December 2014. Refer to Table 29.21 for details.

**Table 29.21: Variance in TMA Cash Account**

| Account              | Account<br>Description | FMIS<br>(\$) | Reconciliation<br>Statement<br>(\$) | Variance<br>(\$) |
|----------------------|------------------------|--------------|-------------------------------------|------------------|
| 4-30000-00000-540000 | TMA Bank Balance       | 1,031,806    | 793,224                             | 238,582          |

The bank reconciliation statement for December reflected lodgement not yet credited of \$25,625 and receipts not in cash book of \$610,395. The details of these two balances were not made available for audit. As a result, audit was not able to ascertain the accuracy and correctness of the TMA bank reconciliation.

The TMA bank reconciliation for May, June and August were not provided for audit verification.

Variances were noted in the opening and closing cash book balances. Refer to Table 29.22 for details.

**Table 29.22: Variance in Opening and Closing Monthly Cash Book Balances**

| Month           | Opening Balance (\$) | Closing Balance (\$) |
|-----------------|----------------------|----------------------|
| December (2013) |                      | 369,527.79           |
| January         | 318,758.66           | 403,843.69           |
| February        | 337,686.28           | 463,012.44           |
| March           | 400,462.50           | 524,627.80           |
| April           | 454,038.32           | 579,143.52           |
| May             | Not Available        |                      |
| June            | Not Available        |                      |
| July            | 569,724.00           | 609,698.22           |
| August          | Not Available        |                      |
| September       | 617,686.33           | 782,276.80           |
| October         | 613,232.73           | 658,293.75           |
| November        | 359,867.13           | 723,497.61           |
| December        | 300,496.96           | 793,223.51           |

A TMA bank balance of \$7,877 (allocation 4-30351-30999-540301) has been included in the FMIS general ledger under the overall balance of \$1,031,806. The details of this bank account and related records were not made available to audit and as a result, audit was not able to ascertain the accuracy and correctness of the balance reflected.

Failure to carry out proper bank reconciliations increases the risk of misappropriation and mismanagement of cash. The issues highlighted above also indicated that the reconciliation statements were not properly checked to ensure their correctness prior to certification.

The Committee agreed with the Auditor General's recommendations that:

- The responsibility of carrying out bank reconciliations should be given to Senior Accounts Officers having adequate knowledge of the bank reconciliation process.
- The Ministry should provide appropriate training to Accounts Officers involved in carrying out accounts reconciliations.
- TMA cash management controls including accounts reconciliation process should be reviewed and strengthened to minimize risk of mismanagement of cash.

### 29.12 LWRM Trust Fund Account

All bank accounts must be reconciled monthly. The bank reconciliation shall list all outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (*Finance Instructions 2010 – Section 32[6]*)

The receipt and payment of trust money must be recorded in a separate cashbook or set of ledger accounts. Each month, the trust account must be balanced and reconciled with the trust bank account. The names and balances

of each account must be listed and the reconciliation shall be signed by the responsible officer. Un-reconciled items must be investigated and resolved promptly. (*Finance Instructions 2010 – Section 58[2 & 3]*)

The review of the Land Water Resource Management (LWRM) and Land Resettlement Planning and Development (LRPD) records revealed the following anomalies:

- Significant variance of \$607,838 was noted between Trust Fund Account balance and the Cash at bank balance as at 31 December 2014, in the FMIS general ledger. Refer to Table 29.23 for details.

**Table 29.23: Variance in FMIS GL - Trust Fund Account balance and Cash at Bank Balance**

| Particulars               | Amount (\$) |
|---------------------------|-------------|
| FMIS Cash at bank balance | 877,651     |
| FMIS Trust Fund Account   | 269,813     |
| Variance                  | 607,838     |

The audit was only able to substantiate the details of retention fund balance amounting to \$241,903. The remaining balance could not be substantiated.

Retention Fund ALTA Lease (Account - 9-30101-30075 895013) had a balance of \$2,529.71. There was no documentary evidence to support this balance. In addition, the account was not reflected in the Ministry's Financial Statements.

Three accounts related to the Ministry of Fisheries and Forestry was still shown under Head 30 - Ministry of Agriculture and have not been regularized since 2010. Refer to Table 29.24 for details.

**Table 29.24: Ministry of Fisheries and Forestry Trust Fund reflected under Head 30**

| Allocation           | Description                 | Amount (\$) |
|----------------------|-----------------------------|-------------|
| 9-30B01-78068-520301 | WBC- Fisheries Bank Account | (25,965.57) |
| 9-30B01-76068-895005 | Fisheries                   | (13,181.00) |
| 9-30B01-78068-895005 | Fisheries Trust Account     | (94,005.04) |

Recording of retention monies for contractual payments were not transferred to the Trust Fund Account. Instead, the funds were recorded in the respective operating capital allocations until the final retention funds were paid out to the contractors. When appropriation authority lapses, this practice could affect the subsequent year's budget appropriation. Refer to Table 29.25 for examples of two project payments during the year for which the retention funds were not transferred to the Trust Fund Account.

**Table 29.25: Details of Retention Money not transferred to Trust Fund Account**

|  | Contract No.    | Total Claim (\$)    | Retention (\$)    |
|--|-----------------|---------------------|-------------------|
| <b>Project 1 Allocation : 130501 91821 080804</b>  |                 |                     |                   |
| Claim No. 1  | WSC<br>159/2013 | 15,811.55           | 1,527.69          |
| Claim No. 2  |                 | 28,236.01           | 2,728.11          |
| Claim No. 3  |                 | 28,883.06           | 2,790.64          |
| Claim No. 4  |                 | 27,382.06           | 2,645.61          |
| Claim No. 5  |                 | 73,873.29           | 7,137.51          |
| Claim No. 6  |                 | 31,707.11           | 3,063.49          |
| Claim No. 7  |                 | 32,211.03           | 3,112.18          |
| Claim No. 8  |                 | 37,467.10           | 3,620.01          |
| <b>TOTAL</b>                                       |                 | <b>275,571.21</b>   | <b>26,625.24</b>  |
| <b>Project 2 Allocation : 1-30501-91821-080805</b> |                 |                     |                   |
| Claim No. 1  | WSC 37/2014     | 99,360.00           | 9,600.00          |
| Claim No. 2  |                 | 225,026.52          | 21,741.69         |
| Claim No. 3  |                 | 254,597.42          | 24,598.80         |
| Claim No. 4  |                 | 181,803.39          | 17,565.53         |
| Claim No. 5  |                 | 148,011.85          | 14,300.67         |
| Claim No. 6  |                 | 69,882.48           | 6,751.93          |
| Claim No. 7  |                 | 156,448.17          | 18,105.76         |
| <b>TOTAL</b>                                       |                 | <b>1,135,129.83</b> | <b>112,664.38</b> |

As a result of the above anomalies, audit was not able to substantiate the accuracy of the Trust Fund Account Statement of Receipts and Payments for the year ended 31 December 2014.

The committee was informed that the whole purpose of creating this particular trust account was the retention of 10 per cent for any civil work that is being carried out by contractors. And after the completion of work, this particular 10 per cent is being claimed by the contractors and the account should all be empty by then.

Again, it goes back to what had been mentioned by our Principal Accountant, the posting of some other accounts into this particular trust fund which is happening with this particular trust fund, leading up to those amounts coming in.

The Committee agrees with the Auditor General's recommendations that:

- Monthly reconciliation process should be strengthened to mitigate the various issues highlighted above.
- The Ministry should ensure that errors and discrepancies identified during the reconciliation process are corrected promptly. The Ministry should seek the Ministry of Finance assistance where necessary.
- Proper books of account should be maintained and provided for audit when requested.
- The recording of retention funds must be transferred to the Trust Fund Account following the completion of the job and the partial payment in order meet the contractor's payment on a time without affecting the current or subsequent year's budget appropriation.

### 29.13 Management of Fixed Assets

An annual board of survey must be conducted each year to verify the existence and condition of assets recorded on the asset register provided that, for agencies that have, in the opinion of the Permanent Secretary a large asset base, the board of survey to be conducted on a cyclical basis so that all assets are checked every three years. (*Finance Instructions 2010 – Section 49[1]*) Annual boards of survey must be conducted by 3 officers who are independent of the officer responsible for the custody of the assets. A written record must be kept of each board of survey and must be signed and dated by the officers undertaking it. (*Finance Instructions 2010 – Section 49[2]*) All assets which are not accounted for in the board of survey must be investigated to determine the appropriate recovery or write-off action. (*Finance Instructions 2010 – Section 49[3]*)

All agencies must maintain a Fixed Asset Register until the asset module of the financial management information system is implemented. Details to be recorded in the asset register should include, at a minimum –

- (a) description;
- (b) cost or fair value;
- (c) date of acquisition, where known;
- (d) make, model and identification number, where applicable; and
- (e) location. (*Finance Instructions 2010 – Section 46[2]*)

Assets whose value is between \$200 and \$2,000 must also be recorded in an Expendable Items Register. (*Finance Instructions 2010 – Section 46[3]*)

Each agency must include in its annual financial statement a statement of losses. (*Finance Instructions 2010 – Section 71 [1] [f]*)

The following anomalies, which have been highlighted in previous years, were noted regarding the maintenance of fixed assets record:

- The audit could not determine whether the Ministry has proper records for fixed assets. Various requests were made to review the Fixed Assets Register (FAR), however was not provided. In 2014, the Ministry acquired fixed assets valued at \$100,613 (this amount is based on a sample testing conducted by the Office of the Auditor-General) for which the audit could not substantiate whether they have been properly accounted for in the FAR.
- The Ministry did not conduct a Board of Survey for 2014. In the absence of a Board of Survey Report, the losses of fixed assets, if any, that occurred during the year could not be substantiated.
- The Statement of Losses only reflected the losses to livestock, recorded at government rate. As a result, the accuracy and completeness of the

Statement of Losses for the year ended 31 December 2014 could not be ascertained. Refer to Table 29.26 for recorded livestock losses in 2014:

**Table 29.26: Summary of Livestock Losses – 2014**

| Livestock    | Amount (\$)   |
|--------------|---------------|
| Sheep        | 10,661        |
| Pig          | 3,086         |
| Cattle       | 2,370         |
| Goat         | 1,063         |
| Chicken      | 1,581         |
| <b>Total</b> | <b>18,761</b> |

Ineffective controls on the management of fixed assets increases the risks of misappropriation.

The committee was informed that the Permanent Secretary usually submit a monthly stock losses to the Ministry of Economy that are recorded from the various Government Stations. These livestock includes sheep, pig, cattle, goat, chicken, etc.

The Committee concurs with the Auditor General's recommendations that:

- All property, plant and equipment purchased by the Ministry must be properly recorded in the FAR and/or the Fixed Asset module in the FMIS and ensure that assets can be easily tracked to individual officers or sections.
- The Ministry should periodically conduct Board of Surveys to take stock of all its fixed assets, update the fixed assets records and to ensure the accuracy and completeness of Statement of Losses.
- All the fixed assets must be coded for easy reference or identification.

#### **29.14 Variance in Drawings Account Balance – Operating Account**

All bank accounts must be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (*Finance Instructions 2010 – Section 32[6]*) The Assistant Accounts Officer (Ledgers) must verify balances in the bank reconciliation to the cashbook, bank statements, un-presented cheque list and the previous month's bank reconciliation before certifying it. (*Ministry of Agriculture – Finance Manual 2011 – Section 7.4.10*)

The Principal Accountant shall appoint three officers to be part of a Board of Survey to conduct a physical stock-take of all money on hand and other stock held in safes. (*Ministry of Agriculture – Finance Manual 2011 – Section 7.2.1*)

The following anomalies were noted from our review of the Operating Drawings account:



- A variance of \$15,483 between the Board of Survey carried out for the un-presented cheque listing and the Ministry's reconciliation statement. Refer to Table 29.27 for details.

**Table 29.27: Variance in Un-presented Cheque Listing**

| Description                  | Board of Survey<br>Un-presented<br>Cheques<br>(\$) | Reconciliation<br>Statement<br>(\$) | Variance<br>(\$) |
|------------------------------|--|-------------------------------------|------------------|
| Un-presented Cheques Listing | 438,291.64   | 422,808.67                          | 15,482.97        |

- In addition, there were unidentified balances namely foreign cheque, foreign EFT payments and direct debits in the Bank Statement which could not be substantiated. Refer to Table 29.28 for details.

**Table 29.28: Unidentified Balances**

| Description          | Balance<br>(\$)   |
|----------------------|-------------------|
| Foreign Cheques      | 186,864.61        |
| Foreign EFT Payments | 57,707.24         |
| Direct Debits        | 81,669.18         |
| <b>Total</b>         | <b>326,241.03</b> |

The above anomalies imply ineffective controls and lack of supervisory checks in the Accounts Section.

The committee was informed that this issue was related to the TMA inter-funding issue which also affects the Ministry's Drawings Account. So these issues are related because some of the cheques that were supposed to be written from TMA are written from that is why there is a variance. The Ministry have been working with the Ministry of Economy (MoE) in trying to rectify this in 2015 onwards and this issue has been rectified in 2016 with the help of MoE FMIS Unit.

The Committee agrees with the Auditor General's recommendations that:

- The Ministry should ensure that proper and accurate drawings account reconciliations are performed on a monthly basis. Any postings identified not to be related to the activities of the Ministry should be investigated and rectified.
- The internal control procedures in the Accounts Section, specifically supervisory checks should be strengthened to avoid such discrepancies.

### **29.15 TMA Warehouse – Commercial Undertaking Livestock**

The authorized officers must not certify a payment as correct unless they are satisfied that there is documentation that these goods, services or works have been received. (*Ministry of Agriculture – Finance Manual 2011 – Section 2.8.4 [ii]*) When inventory items are purchased, the divisional/sectional inventory

bookkeepers shall record them in the inventory register. (*Ministry of Agriculture – Finance Manual 2011 – Section 8.1.2*) Storage of inventories shall be the responsibility of the storekeepers. The storekeeper must ensure that adequate storage space is available for incoming stock as and when required and stocks are kept in an orderly manner allowing for safe access. (*Ministry of Agriculture – Finance Manual 2011 – Section 8.2.1 [i] & [ii]*)

The Ministry's Animal Health & Production Division through its subsidiary venture titled Commercial

Undertaking Livestock (CUT) engages in commercial trade of pine posts and fencing materials to farmers.

Our review of stores records for Trading and Manufacturing Accounts at the Animal Health & Production Division (AH&P) in Vatuwaqa revealed internal control weaknesses in inventory management as follows:

- During the site visit for stocktake on 03/02/15, audit noted that the inventories (pine posts) were not properly stored and safeguarded.
- The inflow and outflow of inventories have not been accurately reported and accounted as the balances recorded in the stock-cards did not match the physical counts
- Inventories valued at \$35,419 have not been delivered as at the date of audit (30<sup>th</sup> June 2015), although full payments have been made to suppliers in 2014
- There is potential risk of loss of public funds/resources through misappropriation and mismanagement when inventory movements are not properly accounted for and when items purchased and paid for are not delivered.
- Similar concerns were raised in previous years' audit reports but the Ministry has yet to take constructive actions to implement audit recommendations.

The committee was informed that the Ministry still have some limitations through the space that office has and is still trying to progress with having to build a shed to store all the pine posts and this is because of the priority of building.

Additionally, an Internal Investigation Team was assigned for this duty and they had made some recommendations which were put forward to Senior Management. But in terms of the audit findings, all the items that had been provided after they were paid for still have the correct number of items that had been delivered to their office in Vatuwaqa and this was due to the change in officers after the investigation.

The Committee concurs with the Auditor General's recommendations that:

- Physical controls should be established to secure and safeguard all inventories.

- Stock purchased should be fully delivered upon full settlement of the account. Purchase order number should also be recorded in the stock card for easy audit trail.
- Inventories should be periodically counted and compared to control records.
- The Ministry should develop and issue policies and procedures that will improve inventory management.

#### **29.16 Motor Vehicle Accidents**

The maintenance and replacement of government vehicles is a significant cost to Government. The behavior of drivers, usage of vehicles for private purposes and lack of proper care all contributes to the cost to maintain vehicles. (*Ministry of Agriculture - Finance Manual – Part 12: Vehicles*)

Within 24 hours after the accident, the driver shall prepare an accident report. (*Ministry of Agriculture - Finance Manual – Section 12.6.4*) A copy of the accident report shall be submitted to the Deputy PS who shall forward copies to the PS, Ministry of Finance and the Solicitor General. (*Ministry of Agriculture - Finance Manual – Section 12.6.6*) The accident report, Police report (if available), Solicitor General's advice and the Supervisor's recommendations will all be taken into consideration by the surcharging authority before any surcharge is imposed. (*Ministry of Agriculture - Finance Manual – Section 12.6.8*)

The Auditor's review of records of eleven motor vehicle accidents (sample) in 2013 and 2014, maintained by the Assets Management Unit, revealed the following:

- Police reports and assessment of estimated cost of repair were not attached to the Accident Reports and in some instances the Accident Reports were not provided for audit.
- Accidents Reports were at times submitted late to the Office of the Solicitor General or not submitted at all.
- In one incident, the Office of the Solicitor General had already resolved to surcharge the driver the cost of repairing the vehicle; however, the Ministry has not taken any action.
- Vehicle GN 520 was involved in an accident in 2013 whilst driven by an Agricultural Officer, who has now retired from the service. The actual cost of repairing the vehicle was \$16,145 and funded from the TMA. There was no evidence to indicate that an Accident Report was submitted to the Office of the Solicitor General. In addition, the audit was not provided with the Accident Report despite numerous requests and follow-up with the Transport Assistance Unit.

In addition, the Asset Management Unit was slow in providing motor vehicle accident records for audit; was not assessing independently the cost of the damage; not maintaining photographic evidence of the vehicles involved in accident showing the extent of the damages; not filing the details of actual costs involved in repairing the vehicles and not following up effectively on the progress of the cases with the Ministry of Finance and the Office of the Solicitor General.

Similar concerns were raised in previous years' audits.

The committee was informed that the Ministry had received the Accident Reports but not to the required timeline that is required for the reports to be submitted. This is due to the locations of their stations.

The process is similar to the submission of the Board of Survey report where a Division submits their report directly to the central agencies - MOE and SG's Office. Now that the Ministry has established an Asset Management Unit, all these reports will be submitted to this Unit at headquarters. They receive, they vet and then they submit to the central agency responsible. They await the decision to be taken and follow up on the implementation of these decisions that are given.

The Committee agrees with the Auditor General's recommendations that:

- It is recommended that the Ministry maintains a Motor Vehicle Accident Register to record all vehicle accident reported cases and related details.
- The Ministry should maintain proper motor vehicle accident records; consider maintaining the photographic evidence of the damages to the vehicles; carry out its independent assessment on government owned vehicles to ascertain estimated cost of the repair; maintain details of actual costs incurred to repair the vehicle and routinely follow up with Ministry of Economy and Office of the Solicitor General on pending cases.

#### **29.17 Leave Management**

General orders 705 (c) clearly stipulates that an officer can only carry forward a maximum of ten [10] working days of his/her annual leave entitlement from one leave year to another.

There should be no reason or justification for the accumulation of annual leave beyond what is permissible, nor payment of compensation in lieu, if leave were properly administered. Under no circumstances should they be required to carryover more than ten [10] working days of leave entitlement from one leave year to the next. Permanent Secretaries and Heads of Department are urgently requested to ensure that all officers utilize their annual leave when due and that proper planning of utilization of annual leave is undertaken and maintained. (*Public Service Circular No 48/2008 – Effective Leave Administration*)

Overall, significant improvements are needed to improve the overall effectiveness and efficiency of the management of leave, an issue that has been previously highlighted to the Ministry. The Ministry incurred significant costs for compensating leave due and not taken during promotion, retirement and resignation from the service as raised in the audit reports over the years.

Our review of a sample of leave records revealed that some officers have excessive leave balances which if not managed properly could result in further accumulation of leave due.

The Committee agreed with the Auditor General's recommendations that administration of leave should be improved and officers should be encouraged to take leave when due or on a piece meal basis. Officers that are about to retire or whose contracts are about to expire should be encouraged to proceed on pre-retirement leave.

Effective management of leave is central to the management of the workforce of the Ministry. As annual leave accrues from year to year, officers should be encouraged to take regular leave for Occupational Health and Safety reasons among others.

It is important that scheduling of leave is carried out on a regular basis as an internal control mechanism to minimize incurring unbudgeted expenditures such as leave compensations.

The committee was informed that the Ministry has issued another circular on effective leave administration. According to this report, there was only one circular that had been issued but looking at the records of annual leave entitlement in the Ministry there was a need to issue another circular on this. According to their records, right now, the leave entitlements of officers as recorded in the Auditor-General's Report had reduced, most abiding to the General Orders entitlement, that is, only 10 days carried forward to the next leave year.

The Committee agreed with the Auditor General's recommendations that the administration of leave should be improved and officers should be encouraged to take leave when due or on a piece meal basis. Officers that are about to retire or whose contracts are about to expire should be encouraged to proceed on pre-retirement leave.

#### **29.18 Non-submission of Acquittal Reports and Audited Accounts**

Where required under the Finance Instruction 1-(8), the recipient of the Grant Assistance shall prepare an acquittal report. The acquittal report shall provide the following information:

- i. Details of grant money expended and unexpended;

- ii. Grant objectives and targets achieved; and
- iii. Financial statement (audited if practicable) for grants of \$20,000 or more  
(*Ministry of Agriculture – Finance Manual 2013 – Section 3.3.1*)

Fiji Cooperatives Dairy Company Limited (FCDCL) at the end of every quarter must submit the following reports detailing the utilization of the grant to the Permanent Secretary for Agriculture:

- Acquittal Reports;
- Quarterly Project Progress Reports;
- A comprehensive report on the services delivered from the period specified; and
- Annual Reports for 2013 (*Grant Agreement - Ministry of Agriculture & FCDCL for Dairy Development Program 2014: Part 7 Audits and Records*)

Navuso Agriculture & Vocational School is required to provide a comprehensive report to the Ministry on the services delivered in accordance with the following, Quarterly Targets together with the Annual Reports and Audit Reports. (*Capital Grant Agreement Dated 30/05/14 between Ministry of Agriculture & the Methodist Church of Fiji – Navuso School*)

Grant acquittals are an integral part of good risk management and provide a measure of assurance that public funds allocated to grant recipients have been spent for their intended purposes. Adequate and well-documented arrangements to ensure financial accountability are the basis of effective grant acquittal.

The Ministry provides assistance in the form of operating and capital grant to the Fiji Cooperative Dairy Company Ltd and the Navuso Agriculture Training School. The audit noted that these agencies have not submitted the proper acquittals and audited financial statements to the Ministry of Agriculture for the year ended 2014. Refer to Table 29.33 for details of grant paid as at 31 December 2014.

**Table 29.33: Details of Grants disbursed**

| Agency                                 | Grants Provided |               |            |
|--|-----------------|---------------|------------|
|  | Operating Grant | Capital Grant | Total (\$) |
| Fiji Cooperative Dairy Company Limited | —               | 1,000,000     | 1,000,000  |
| Navuso Agriculture Training School     | 314,555         | —             | 315,555    |

As at 30/06/15, the Ministry disbursed grant amounting to \$198,000 to the Navuso Agriculture Training School although the school have not properly acquit and provided audited financial statements for grants disbursed in 2014.

The grant agreement provides the foundation for the Ministry to manage effectively and efficiently the government grant that it disburses. It is therefore crucial that the Ministry ensure compliance with the provisions of the grant agreements.

There is potential risk of misusing government grants if the Ministry does not effectively monitor how the grants have been spent.

The committee was advised that as for the acquittals for the grants, before the Ministry submits additional grants, it is a requirement that the above mentioned agencies must acquit or give acquittals to the funds that were given to them, before the funds upon request. It should be noted that the above entities in table 29.33 are submitting their acquittals to the Ministry on a quarterly basis when they request their quarterly grants.

The Committee agrees with the Auditor General's recommendations that:

- It is recommended that the Ministry appropriately enforce the requirements of the Grant Agreements with recipients' of government grants; and
- For ease of monitoring, the Ministry should develop standardized acquittal templates to be used by recipients to acquit grants.

### 29.19 Missing Payment Vouchers

The need to improve record management in all agencies is vital for promoting Good Governance, Transparency and Accountability in the public sector. It is the responsibility of all staff hierarchy levels in each agency to integrate proper record management upkeep. (*Ministry of Agriculture – Finance Manual 2011 – Part 2: Expenditure*)

Payment vouchers have been misplaced as they were not made available for audit. In addition, payment vouchers and supporting documents were not securely stored and easily accessible to unauthorized personnel. Refer to Table 29.34 for details.

**Table 29.34: Missing Payment Vouchers**

| Date          | Cheque No.                             |
|---------------|--|
| January 2014  | 215042-215133                          |
|               | 215155-215242                          |
| February 2014 | 212384-212444                          |
|               | 212557-212568                          |
| March 2014    | 212813-212832                          |
| April 2014    | 212305-213316                          |
| June 2014     | 213989-214006 ( Batch 09 June A/B)     |
|               | 214634-214646                          |
| July 2014     | 215629                                 |
|               | 12139                                  |
| December 2014 | 216894-216905 ( Batch 03 December A/B) |
|               | 216887                                 |
|               | 217006-217009 ( Batch 17 December A/B) |

Inaccessible accounting records provided a limitation to the scope of the audit. Similar concerns were raised in previous years.

The committee was informed that as for the accounting records, the Accounts Section of the Ministry of Agriculture has managed to secure a room where they store all their payment vouchers and their accounting records. Also, the Ministry has put in place a system whereby access to the room is limited to only one person who is authorized by the Principal Accounts Officer to access the room and take out the payment vouchers which are needed, and also we keep a record of the outflows and inflows of documents from that room

The Committee agreed with the Auditor General's recommendations that:

- The system of record keeping should be reviewed and strengthened by implementing proactive approach to improving financial records management practices; and
- Accounting records and supporting documents to substantiate the balances reflected in the financial statements should be maintained in safe custody for audit purposes.



## **Section 30: Ministry of Fisheries and Forest**

### **Role and Responsibilities**

The Ministry of Fisheries and Forests is responsible for the formulation of policies that promote best practices (equating conservation and utilizations) that will ensure a sustainable fisheries and forestry sectors. The Ministry drives this through coordination, consultation and in partnership with resource owners, communities, private sector, government agencies, and non-government organisations, regional and international agencies.

### **PART A: FINANCIAL STATEMENTS**

#### **30.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Fisheries and Forests resulted in the issuing of a qualified audit report. The qualifications are as follows.

- Included in the Trading and Manufacturing Account (TMA) Balance Sheet are TMA Surplus Capital Retained of \$202,067, TMA Accumulated Surplus with debit balance of \$51,529, Accounts Receivable of \$5,745 and Deposits and Deductions of \$5,196. The audit was not able to verify the amounts as the Ministry did not provide appropriate audit evidences to support the balances and to ascertain the accuracy and completeness of the Trading and Manufacturing Accounts as at 31 December 2014.
- There was an un-reconciled variance amounting to \$19,079 between the FMIS general ledger cash balance and the TMA bank reconciliation statement. Accordingly, the audit was not able to ascertain the accuracy and completeness of the TMA Cash at bank balance of \$65,947 as at 31 December 2014.
- The closing balance of the Trust Account Statement of Receipts and Payments of \$135,726 did not correspond to the FMIS general ledger resulting in an un-reconciled difference amounting to \$1,154,989. Accordingly, the audit was not able to ascertain the accuracy and completeness of the Main Trust Fund balance as at 31 December 2014.

#### **30.2 Statement of Receipts and Expenditure**

The Ministry of Fisheries and Forests collected revenue totaling \$1.8 million and incurred a total expenditure of \$19.3 million in 2014.

Total revenue increased by \$586,830 or 47% in 2014 compared to 2013 mainly due to the increase in revenue generated from native timber measurement, vessel registration and miscellaneous revenue.

Total expenditure increased by \$2.9 million or 17% in 2014. The increase is explained by the following:

- Established Staff increased by \$1.8 million or 33% in 2014 mainly due to the filling of vacant positions, the creation of 25 new positions for the Fisheries Offshore Division and the regularization of the project posts for Technical Services Fleet Bai-ni-Takali Vessel crew.
- Government Wage Earners increased by \$281,266 or 18% in 2014 mainly due to the filling of vacant positions.
- Maintenance and Operations increased by \$176,137 or 8% in 2014 mainly due to increase in activities carried out in maintenance of equipment and operation costs for both Departments. There were increased costs for maintenance of motor vehicles and for power supply.
- Pine woodlot logging packages were purchased for the Narocake – Gau and the Cicia Pine Schemes, thus the Capital Purchases of \$791,075 recorded in 2014. (These machines constitute two portable sawmills, two tractors that were bought from China and also two static treatment plants, two generators to run the treatment plants and also some little workshops)

### 30.3 Appropriation Statement

The Ministry incurred a total expenditure of \$19.3 million against the revised budget of \$21.2 million resulting in savings of \$1.9 million or 9%.

### 30.6 Statement of Losses

Alleged misappropriations of revenue totaling \$3,644 are being investigated by the Ministry.

The committee was advised that the misappropriation of revenue, the Ministry managed to get the officer surcharged from their salaries and the recovery has been done

In accordance with the Procurement Regulations 2010 (Clause 52), the Permanent Secretary for Finance approved the disposal and write-off of the following items upon submission of the recommendations in the Board of Survey Report.

**Table 30.8: Fixed assets disposed off**

| Description        | 2014<br>(\$)   | 2013<br>(\$)  |
|--------------------|----------------|---------------|
| Computer Equipment | 91,488         | ---           |
| Motor Vehicle      | 41,310         | 2,400         |
| Office Equipment   | ---            | 9,000         |
| Computer Equipment | 43,699         | ---           |
| Motor Vehicle      | 33,750         | 3,950         |
| Office Equipment   | ---            | 9,500         |
| Computer Equipment | 56,915         | ---           |
| <b>Total</b>       | <b>267,162</b> | <b>24,850</b> |

## **PART B: AUDIT FINDINGS**

### **30.7 Upgrading and Refurbishing of Quarters**

In 2014, \$500,000 was allocated for the upgrading and refurbishment of Offices and Quarters of which \$403,527 (VIP) was actually utilized.

The upgrading and refurbishment of quarters were carried out in Colo-i-Suva and the Dreketi Forestry Station. As the major component of the costs was incurred for the upgrading and the refurbishment of the Colo-i-Suva quarters, which totalled \$387,304 (VEP), the audit solely focused on the work carried out in Colo-i-Suva.

The upgrading and refurbishment did not go through the tender process as the costs were below the Government Tender Board threshold of \$50,000.

The following were noted from the audit:–

#### **30.7.1 Anomalies in Refurbishment Contracts**

In view of the substantial amount of the government funds involved in the procurement process, Ministries and Departments must ensure that a draft contract is submitted to the Office of the Solicitor General for vetting. (*Finance Circular No. 3/2013 – Paragraph 4.1*)

10% of the contractual sum shall be retained as a contingency against defects liability period upon written notification by the client of satisfactory completion of works. (*Upgrading and Repairing Contracts Block 2 – Section 3.2*)

The work contracts were drawn up by the Planning and Monitoring Unit of the Ministry. The allocation of contractors for the upgrade/refurbishment works for the quarters in Colo-i-Suva were done in blocks, with a block containing a number of quarters in the same vicinity. Our review of contract documents revealed the following anomalies:

- There was no evidence that the contract template used was vetted by the Office of the Solicitor General. In addition, the contracts did not contain specific scope of works or terms of reference.
- The scope of works for the contracts were not specific to the upgrade/refurbishment requirements of each quarter, which indicated that the Ministry did not identify the maintenance needs for each quarters or offices before engaging contractors.
- The Ministry did not maintain any record of upgrade/refurbishment works done on the quarters in each block as these records were not provided for audit.
- Important contract conditions such as the date of signing, date of commencement and completion of work were not stated in some contracts.

- For the refurbishment works done by Contractor 1 for Block 2, the contract sum was fully paid at each phase without deducting the agreed contingency sum of 10% as stipulated in the agreement, to cover defect liability period

There is potential risk for excessive cost and unnecessary or substandard work done by contractors if the scope of works is not clearly defined or specified in the contracts.

The committee was informed that this was an oversight of the Ministry for not following the regulations stipulated under the Procurement Regulation. However, the committee was advised that the Forestry Quarters at Colo-i-Suva was initially built by Forestry carpenters on the understanding that the repairs would be done by Forestry and no Ministry of work-plan was initiated for those quarters. The understanding here, is they themselves look for the contractors to come and repair its quarters. That may be the misunderstanding here. They are not following the Procurement Regulations because initially, the institutional quarters belong to the Department of Forestry.

The Committee concurs with the Auditor General's recommendations that:

- The Ministry should consider having the contract template currently in use reviewed by the Solicitor General's Office.
- It is recommended that work specification become part of the contracts in terms of clear output or performance requirements by contractors.
- The assistance of the Ministry of Infrastructure and Transport can be sought in the inspection of the quarters/offices and establishing work specification to be carried out.
- Percentage of contract sum to cover defect liability period should be retained (retention fund) if it is a requirement of the contract.
- It is also recommended that the Ministry develop contracting policy/rules to govern the development of contracts, endorsement and execution of contracts.

### **30.7.2 Physical Inspection – Upgrade of the Colo-i-Suva Quarters**

A site visit to physically inspect the upgrade and refurbishment works carried out in 2014 on the Forestry Quarters in Colo-i-Suva was made in 18/03/15. The total cost of the upgrade was \$387,304.

Physical inspection of the quarters revealed numerous defects, which included:

- leaking roofs;
- screen doors and windows not repaired;
- screen window frame not fitted properly;
- missing louver blades;
- louver frames not replaced;
- rotted double wall not replaced;

- roof gaps causing rain to leak inside;
- screen door removed but not replaced; and
- rusted iron roof were not replaced.

The defects identified during the site inspection could have resulted from the absence of work specifications identified in the work contracts. In addition, the refurbishment works undertaken may not have been properly monitored and assessed before payments were made to contractors.

The committee was informed that the Ministry is now liaising with the Ministry of Works for them to give a Clerk of Works. A Clerk of Works is involved in all our building projects. They are the ones who are now approving the payments; they go and check everything as of to-date.

The Committee agreed with the Auditor General's recommendations that:

- It is recommended that the Ministry properly monitor and assess works done by contractors before the contract sum is paid.
- The Clerk of Works engaged should be qualified to assess and verify the works done by contractors. In addition, the Ministry should seek assistance from the Ministry of Infrastructure and Transports in assessing upgrade and refurbishment works on buildings completed by the contractors.
- Defect terms and conditions to be fully exercised during the defects liability period prior to the issuance of the certificate of completion and the cost of defects to be deducted accordingly from the contractor's retention fund if works carried out were not done up to standards.

### 30.8 Drawings Account Reconciliation

Drawings Reconciliations shall be in accordance with the format provided in schedule 3, and must be submitted within 5 days after the end of the month. (*Ministry of Fisheries and Forests Finance Manual 2013 – Section 15.3.9*) The closing balance as per general ledger should agree to the cashbook balance. (*Ministry of Fisheries and Forests Finance Manual 2013 – Schedule 3 – Drawings Reconciliation*)

The audit noted significant variance between the drawings account reconciliation statement and the FMIS general ledger balance as at 31 December 2014. Refer to Table 30.12 for details.

**Table 30.12: Variance in the Drawings Reconciliation**

| Department                        | General Ledger<br>(\$) | Reconciliation Statement<br>(\$) | Variance<br>(\$) |
|-----------------------------------|------------------------|----------------------------------|------------------|
| Ministry of Fisheries and Forests | 241,173.12             | 512,100.48                       | 270,927.36       |

The reasons for the variance had been identified in the drawings reconciliation statement; however these have not been adjusted in the general ledger. These

included bank fees, errors in bank statement and cheque register, foreign cheques, EFT not presented and other differences that were yet to be adjusted.

The drawings account reconciliation statements were not prepared on a monthly basis.

Performing reconciliation of accounts is ineffective if variances noted are not promptly rectified.

The committee was advised that the Ministry has been working closely with FMIS in reconciling the variance in their GL, cash book and bank statement. Right now, FMIS has adopted the new system and training which really assists us so before the handing over; all the drawings to our ministries and the Ministry have been working closely with the FMIS Team

The Committee concurs with the Auditor General's recommendations that:

- The Ministry should investigate and rectify the variances noted between the reconciliation statements and the FMIS general ledger.
- Reconciliation of accounts should be performed timely and accurately.
- It is also recommended that the Ministry take a proactive approach by also performing monthly drawings account reconciliation rather than relying on the Ministry of Economy.

### **30.9 Anomalies in the Main Trust Fund Account – 1/3 Subsidy Scheme**

Each month, the trust account must be balanced and reconciled with the trust bank account. The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer. Un-reconciled items must be investigated and resolved promptly. (*Finance Instructions 2010 – Section 58[3]*)

All procurement of goods and services shall be prepared in accordance with the appropriate provisions in the Procurement Regulations 2010. (*Finance Instructions 2010 – Section 12*)

The audit of the 1/3 Subsidy Scheme Main Trust Fund Account for the Department of Fisheries and related records revealed anomalies as discussed below:

- There was a variance of \$1.07 million between receipts and payment balance reflected on SLG 86 and SLG 89 accounts and the cash balance reflected under SAG 52. Refer to Table 30.13 for details.

**Table 30.13: Variance between the Main Trust General Ledgers**

| Account                        | Description              | Amount (\$)           |
|--------------------------------|--------------------------|-----------------------|
| <b>Main Trust Balance</b>      |                          |                       |
| 9-32301-78068-860101           | Project Development Fund | 15,310.00             |
| 9-32301-78068-895005           | Fisheries                | (1,034,573.51)        |
| <b>Total</b>                   |                          | <b>(1,019,263.51)</b> |
| <b>Main Trust Cash Balance</b> |                          |                       |
| 9-32301-76068-520301           | Generated Account        | 53,447.41             |
| <b>Variance</b>                |                          | <b>(1,072,710.92)</b> |

- The accuracy and completeness of cash at bank as at 31 December 2014 could not be ascertained as there was a variance of \$82,278.26 between the cash at bank balance in the FMIS general ledger and the bank reconciliation statement balance. Refer to Table 30.14 for details.

**Table 30.14: Variance between the GL and Bank Reconciliation**

| Particulars                           | Amount (\$)      |
|---------------------------------------|------------------|
| Cash at Bank Reconciliation Statement | 135,725.67       |
| FMIS General Ledger                   | 53,447.41        |
| <b>Variance</b>                       | <b>82,278.26</b> |

- The accuracy and completeness of Main Trust Fund ending balance at 31 December 2014 could not be ascertained as there was a variance of \$1.1 million between the FMIS general ledger balance and the reconciliation statement. Refer to Table 30.15 for details.

**Table 30.15: Variance between the GL and Bank Reconciliation**

| Particulars                         | Amount (\$)         |
|-------------------------------------|---------------------|
| Main Trust Reconciliation Statement | 135,725.67          |
| General Ledger (FMIS)               | (1,019,263.51)      |
| <b>Variance</b>                     | <b>1,154,989.58</b> |

- The main trust fund balance for *Allocation: 9-32301-78068-895005* (Fisheries) at 31 December 2014 was overdrawn by \$1.03 million.
- Monthly trust fund reconciliation statements for July, August and September 2014 were not provided for audit.

- Transactions from January to November were only posted to the FMIS general ledger at year end. Our review of the cash book indicated that there were receipting and payment activities throughout the year, however the posting to the main trust account and the cash account in the FMIS general ledger was done in December 2014.
- The Ministry maintains a bank account (cheque) with a commercial bank in which transactions have not been reflected in the AP470 cash book and/or under Fund 1, 4 or 9 of the FMIS general ledger. The existing balance at the time of the audit was \$14,085.

The accounting and administrative practices of the Main Trust Fund account, including the monitoring of the transactions, are ineffective as evidenced by the issues discussed above.

The committee was informed that Trust Account is the same as the TMA. There were figures that were carried over from previous years and the Ministry could not find a way to reconcile it. Another issue that the Ministry faced with this Trust Account was that there were two accounts, debit and credit but the default account, when posted through the system, the debits were just increasing. They were not hitting the same default account and it has been happening over the years.

The Ministry has also liaised with FMIS and went back and the only sensible move that FMIS did was the write-off exercise because the Ministry could not trace it back. It should be noted that this was way back in 2004, and that was the same issue as with TMA, it is also happening with Trust, Fund 9, the three different bank accounts - Operating, TMA and True Trust which the Ministry operates.

The Committee agrees with the Auditor General's recommendations that:

- The effectiveness of the account reconciliation process should be strengthened to ensure that variances identified are resolved and books of account corrected/adjusted accordingly.
- Transactions should be posted to the FMIS general ledger daily.
- Supervisory function in the Accounts Section should be improved.

### **30.10 Prior Year Issues**

While some issues have been rectified, a number of issues identified from the financial statement audit have yet to be resolved or are in the process of being resolved. These recurring issues are:

- 1) Anomalies in the Trading and Manufacturing Account (TMA)



- 2) Irregularities in TMA Bank Reconciliation
- 3) Anomalies in the Main Trust Fund - Fisheries 1/3 Subsidy Scheme
- 4) Variance in Drawings Account Balance
- 5) Incorrect Accounting of VAT
- 6) Refurbishment Contract
- 7) Logging License Database

**The Committee recommends that the Ministry should take immediate action in ensuring that the above anomalies identified by the Auditor-General are addressed and resolved appropriately.**

## **Section 31: Ministry of Lands and Mineral Resources**

### **Role and Responsibilities**

The Ministry of Lands and Mineral Resources is made up of two Departments, namely the Department of Lands and the Department of Mineral Resources. The Department of Lands is responsible for the administration, development and management of all state land property. Activities include Land Valuation, Mapping, Development and Maintenance of State Land and Geographic Information System. The Department of Mineral Resources undertake studies in relation to geological hazards, mineral prospects and groundwater development and manage the development of the Mining and Quarrying Sector with a mandate under the Mining, Petroleum (Exploration and Exploitation), Quarries, Explosive and Continental Shelf Acts.

### **PART A: FINANCIAL STATEMENTS**

#### **31.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Lands and Mineral Resources resulted in the issue of an unqualified audit report.

#### **31.2 Statement of Receipts and Expenditure**

The Ministry collected revenue totalling \$20.1 million and incurred a total expenditure of \$24.3 million in 2014.

Total revenue increased by \$4.9 million or 32% in 2014 compared to the 2013 due to the vigorous measures implemented by the Ministry to collect revenue including arrears of revenue due to Government.

Total expenditure increased by \$3.1 million or 15% from the previous year and was largely due to increase in capital expenditure by 174% which was the result of the increased number of projects executed during the year.

#### **31.3 Appropriation Statement**

The Ministry incurred expenditure totaling \$24.3 million in 2014 against a revised budget of \$32.7 million resulting in a savings of \$8.4 million.

#### **31.4 Statement of Losses**

There was a short lodgment of revenue of \$300 in March 2014 and was later made good in August 2014 however the case has been investigated by FICAC and taken up to Court. The decision on the case is still pending with the Court.

## PART B: AUDIT FINDINGS

### 31.5 Anomalies in the Receipting and Recording of Revenue

The Accounting Head is responsible for the effective design and operation of internal controls of the agency. (*Ministry of Lands and Mineral Resources Finance Manual 2013 Section 17.1.1*)

For the past five years, the Department of Lands collected revenue from land rents totaling more than \$61 million as tabulated below.

**Table 31.3: Land Rents (Crown Lease) Collected**

| Year | Land Rent from Crown Lease (\$) |
|------|---------------------------------|
| 2014 | 13,851,037.93                   |
| 2013 | 12,816,448.44                   |
| 2012 | 10,586,965.78                   |
| 2011 | 12,320,796.86                   |
| 2010 | 11,459,682.72                   |

The audit of Crown Land Lease System (CLLS) and its anomalies, which indicated weak internal controls procedures/system.

#### **Incorrect posting of reference numbers**

The procedures followed in the receipting of land lease payments include the following:

- An official receipt is manually issued to lessees when lease payments are received by the cashier.
- Once receipted, the amount is then entered into the CLLS to update the lessee's account. The manual receipt numbers are used as the reference numbers in the CLLS.
- The receipts are then sent to the Accounts Section to be entered into the FMIS general ledger through the Accounts Receivable module.
- The manual receipt numbers used by the Department in 2014 had six digits only.

The audit noted that errors were made when receipt numbers were used as reference to update the CLLS. All receipts used in 2014 had six (6) digits; however there were entries in the CLLS that either had less or more than six (6) digits as references. Therefore, the audit was not able to trace the entries in the CLLS to the respective manual receipts to ascertain the correctness of the transactions posted in the CLLS.

### **Delays in updating lessees' accounts in the CLLS**

The updating of the lessees' accounts in the CLLS was often delayed. Refer to Table 31.4 below for examples:

**Table 31.4: Examples of Delays in Updating of Lessees' Account**

| Receipt No. | Amount (\$) | Date of Receipt | Account No. | Entry Date in CLLS | Remarks   |
|-------------|-------------|-----------------|-------------|--------------------|---|
| 539912      | 65.00       | 02/01/14        | 20864       | 01/01/14           | Posting to CCLS was made before receipt was issued. |
| 541360      | 50.00       | 03/02/14        | 47040       | 06/02/14           | Delay of 3 days.                                    |
| 545928      | 305.00      | 30/05/14        | 30426       | 04/06/14           | Delay of 5 days.                                    |
| 545933      | 67.00       | 30/05/14        | 30877       | 04/06/14           | Delay of 5 days.                                    |
| 545934      | 471.50      | 30/05/14        | 30525       | 04/06/14           | Delay of 5 days.                                    |
| 545935      | 102.00      | 30/05/14        | 30140       | 04/06/14           | Delay of 5 days.                                    |
| 545940      | 390.55      | 30/05/14        | 30670       | 04/06/14           | Delay of 5 days.                                    |
| 545936      | 50.00       | 30/05/14        | 31954       | 04/06/14           | Delay of 5 days.                                    |
| 551778      | 1,054.78    | 28/10/14        | 12320       | 27/10/14           | Posting to CCLS was made before receipt was issued. |

There is potential risk of lessees' account not being updated if postings to the CLLS are not carried out daily.

### **Lessees' Statement of Account not updated to reflect payments made**

The audit noted instances where the payments have been received but were not updated in the respective lessees' account in the CLLS. Refer to Table 31.5 for examples:

**Table 31.5: Examples of Lessees' Statement of Account not updated**

| Receipt No. | Amount (\$) | Date of Receipt | Account No. |
|-------------|-------------|-----------------|-------------|
| 545760      | 1,150.00    | 29/05/14        | 42860       |
| 546397      | 180.00      | 29/05/14        | 42646       |
| 546400      | 1,000.00    | 29/05/14        | 24280       |
| 546300      | 234.90      | 30/05/14        | 40648       |
| 545350      | 100.00      | 30/04/14        | 15115       |
| 550449      | 40.00       | 28/10/14        | 46366       |

Accounting for revenue received through Housing Authority of Fiji

The Housing Authority, on behalf of the Department of Lands, receipts crown land rental which are then paid to the Department at the end of each month.

The audit noted that the CLLS was not fully updated even though land rents were receipted.

Furthermore, considerable delays were noted in the postings to the CLLS to update the lessees' account.

When accounts are not updated, arrears of revenue will be inflated and reports produced by the CLLS will be incomplete and/or inaccurate.

The absence of an adequate reconciliation process may result in the Department failing to detect, on a timely basis, possible irregularities in the receipting and accounting of lease payments in the CLLS.

The committee was informed that the major issue here is when staff are punching in the receipts numbers into the system. That CLLS is the Crown land lease system. That is where they continue to make errors or they must have been deliberate in doing that. So what has been done now is the system has been set in such a way that it only accepts the six digits that are on the receipt, so not more than that and not less than that. So if they are punching in less, the system will flag in that is not the full six digits. So if it is more, the system will not possibly recognize it because it is only six digits.

The Committee agrees with the Auditor General's recommendations that:

- Processes and procedures on receipting and recording of revenue should be reviewed to enhance internal controls and safeguard revenue received through land rents.
- Manual data should be reconciled to the CLLS daily to ensure that details of receipts posted to the system are correct. In addition, payments received through the Housing Authority of Fiji should be reconciled against the CLLS accounts.
- Lessees' accounts should be immediately updated once payments are received.

### 31.6 Administration of Accountable Advance

A ledger shall be maintained for advances, petty cash, accounts payable, revolving fund accounts expenditure and commitment accounts. (Ministry of Lands & Mineral Resources Finance Manual 2013 Section 16.3.1) Any transaction raised affecting these accounts shall be entered in the appropriate ledger. (Ministry of Lands & Mineral Resources Finance Manual 2013 Section 16.3.2) Within 3 days of receiving the monthly general ledger reports from the Ministry of Finance, the accounts supervisor shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement. (Ministry of Lands & Mineral Resources Finance Manual 2013 Section 16.3.3)

For the year ended 31 December 2014, the balance of outstanding accountable advances was \$39,202, an increase of \$19,454 or 99% compared to 2013. Refer to Table 31.7 below for details.

**Table 31.7: Increase in Accountable Advance Account Balance in 2014**

| Account Number       | Description | 2014<br>(\$) | 2013<br>(\$) |
|----------------------|-------------|--------------|--------------|
| 1-33301-79101-570301 | Advances    | 39,202.39    | 19,748.02    |

The Department of Lands did not provide for audit an Accountable Advance Register and a listing of employees that have yet to retire Accountable Advances at year end. This provided limitation to adequately vouch and confirm retirement of advances from the journal voucher records. In addition, the reconciliation statement for December had credit balances which indicated that some accounts were cleared above the amounts advanced.

The audit was not able to ascertain the accuracy and the completeness of the amount reflected as Accountable Advance in the FMIS general ledger.

The committee was informed that the Ministry have a system in place internally to address that, especially now. Before we normally issue the full amount but now the internal policy is, we issue 50 percent of what actually they are supposed to have and when they come back, then they are able to claim the balance of whatever they are supposed to get. So those are some of the internal measures that have been put in place to address some of the issues that have been highlighted by the Auditors in terms of the administration of accountable advance.

The Committee agreed with the Auditor General's recommendations that:

- Records pertaining to the administration and management of accountable advances should be adequately maintained, updated and provided for audit.
- Monitoring of accountable advances should be effectively performed to ensure that employees settle advances on time and that collections on outstanding advances are initiated in a timely manner.
- Reconciliation statements should be prepared on a monthly basis and the statements should be properly checked and signed off.

### **31.7 Anomalies in Main Trust Fund Accounts**

Each month, the trust account must be balanced and reconciled with the trust bank account. The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer. Un-reconciled items must be investigated and resolved promptly. (*Finance Instructions 2010 s58[3]*)

Within 5 days after the end of each month, the Clerical Officer shall prepare a trust reconciliation to reconcile trust account balances to the ledger total and the trust bank account. (*Ministry of Lands & Mineral Resources Finance Manual 2013 Section 15.4.1*) The Accounts Officer shall certify and date the reconciliation statement after ensuring that all balances in the statement are verified to supporting documents. (*Ministry of Lands & Mineral Resources Finance Manual 2013 Section 15.4.3*)

The Senior Account Officer must verify balances in the bank reconciliation to the cashbook, bank statements, un-presented cheque list and the previous month's

bank reconciliation before certifying it. (*Ministry of Lands & Mineral Resources Finance Manual 2013 Section 7.4.11*)

A review of the Main Trust Fund Accounts and related records revealed the following anomalies, most of which were recurring issues from previous years:

### **Bank Reconciliation Statement**

- The Department of Lands did not provide certified copies of the January and February reconciliation statements for audit. In addition, the Department of Minerals Resources did not maintain any certified copies of the Trust Fund Account reconciliation statements.
- Monthly bank reconciliations for the Department of Land were not performed on time. In addition, the monthly bank reconciliation for July to December was not carried out.

### **Variances in Receipts and Payments**

- There were un-reconciled variances between the Ministry's records and the FMIS general ledger, which the Ministry could not explain or provide supporting documents to substantiate the variances. Refer to Table 31.8 for details:

**Table 31.8: Variance for Receipts and Payments**

| Department | Trust Fund Account | Audit Recalculation (\$) | Department (FMIS) (\$) | Variance (\$) |
|------------|--------------------|--------------------------|------------------------|---------------|
| Lands      | Receipts           | 3,090,850                | 3,090,751              | 99            |
|            | Payments           | 1,703,395                | 1,700,590              | 2,805         |
| Minerals   | Receipts           | 1,816,241                | 1,852,963              | (36,722)      |
|            | Payments           | 958,457                  | 980,231                | (21,774)      |

### **Trust Fund Accounts with Debit Balances**

A number of accounts had debit closing balances for which the Department did not provide any explanations. This indicated that the Department may have incorrectly posted some transactions to the accounts. Refer to Table 31.9 for details:

**Table 31.9: Details of Trust Fund Accounts with Debit Balances**

| Allocation                     | Amount (\$)       |
|--------------------------------|-------------------|
| 9-33101-79001-895051 (1050038) | 50,000.00         |
| 9-33101-79001-895051 (1050074) | 184.60            |
| 9-33101-79001-895051 (1050083) | 30,632.04         |
| 9-33101-79001-895051 (1050115) | 3,893.65          |
| 9-33101-79001-895051 (1050154) | 13.17             |
| 9-33101-79001-895051 (1050184) | 54.00             |
| 9-33101-79001-895051 (1050218) | 514.41            |
| 9-33101-79001-895051 (1050227) | 36.00             |
| 9-33101-79001-895051 (1050236) | 72,186.00         |
| 9-33101-79001-895051 (1050246) | 50.58             |
| 9-33101-79001-895051           | 1,135.00          |
| 9-33101-79001-895051           | 213,882.38        |
| 9-33101-79001-895051           | 2,400.00          |
| <b>Total</b>                   | <b>374,981.83</b> |

**Trust Fund Payments Anomalies - Department of Lands**

There were payments made from the Trust Fund account that were not captured in the Cheque Register (AP470 report). The Department explained the payments were replacement cheques which were not being posted in the FMIS general ledger. However, documents requested to confirm the initial payments were not provided for audit verification.

Refer to Table 31.10 for details:

**Table 31.10: Examples of Issued Cheques not in Cheque Register (AP470 Report)**

| Cheque No. | Amount (\$) |
|------------|-------------|
| 667        | 950.00      |
| 723        | 721.56      |
| 786        | 212.75      |
| 811        | 212.75      |

In addition, a payment of \$7,994 made out to Department of Fisheries through Cheque No. 785 was cancelled on the manual cashbook. However, this was not cancelled in the cheque register (AP470 report).



Moreover, Cheque No.786 was not captured in the Cheque Register. However, the manual cashbook revealed that two payments were made on this cheque. Refer to Table 31.11 for details.

**Table 31.11: Payments made from Cheque No.786**

| Payee                   | Amount<br>(\$) |
|-------------------------|----------------|
| Department of Fisheries | 7,994.00       |
| PSLMR                   | 212.75         |

**Trust Receipts anomalies - Department of Mineral Resources**

A total of \$116,207 was directly credited to the Trust Fund Bank Statement; however, these amounts were not receipted by the Department. Out of the total amount directly deposited, \$8,844 was confirmed to be operating revenue received through the Trust Fund account before being paid into the Consolidated Fund Account. This was done to cater for the direct payments which are operating revenue, made to the Department's bank account for Trust Fund.

According to the Department, direct credits pertaining to operating revenue are not receipted and the same amounts are being paid out from the Trust Fund accounts to the Consolidated Fund Account. However, the Department does not maintain a record of all payments received through the Trust Fund bank account so as to reconcile with the amounts paid to the Consolidated Fund Account.

The issues discussed above could also be the contributing factors to variances noted in the Trust Fund Accounts.

The Committee was advised that the Ministry has taken note of the Auditor-General's Recommendations and that are:

- The Ministry should comply with the procedures relating to the preparation of reconciliation statements as stated in the Finance Manual.
- Reconciliation of all underline accounts should be performed monthly, properly checked and certified on time.
- Variances noted between the cashbook, reconciliation statements and the FMIS general ledger should be investigated and rectified in a timely manner.

The Committee further recommends with the Auditor General's recommendations that:

- The Ministry should investigate why some issued cheques were not captured in the Cheque Register and investigate and rectify the variances noted between its manual Cashbook and the Cheque Register.
- The Ministry should liaise with the Ministry of Finance on appropriate ways to account for direct deposits of operating revenue made through bank transfers

and reconcile operating revenues receipted through trust to payments made to operating revenue.

### **31.8 Other Prior Year Recurring Issues**

During the 2014 audit, the Auditor General has had matters reported in the previous years. While some issues have been rectified, a number of issues have yet to be resolved. These are:

- 1) Variances in Drawings Accounts
- 2) Anomalies in Underline Accounts Reconciliation
- 3) Recovery of Arrears of Revenue
- 4) Incorrect Payment of Salary
- 5) Anomalies in the Procurement and Payment Processes

**The Committee recommends that the Ministry should take immediate action in ensuring that the above anomalies identified by the Auditor-General are addressed and resolved appropriately.**

## **Section 32: Ministry of Industry and Trade**

### **Role and Responsibilities**

The Ministry formulates and implements policies and strategies to facilitate industry growth, investment, trade, co-operative development, micro and small enterprise development, metrology, standards and consumer protection.

These roles and responsibilities are undertaken within the Economic Unit, Trade Unit, Department of National Measurement and Standards, Department of Co-operative Business, Corporate Services Division, Consumer Council of Fiji, Fiji Commerce Commission, Investment Fiji, Film Fiji, Real Estate Agents Licensing Board, National Centre for Small and Micro Enterprise Development, Trade Standards Advisory Council, Trade Commission - Taiwan, Trade Commission - Los Angeles, Trade Commission - Shanghai and Trade Commission - PNG.

The Ministry undertakes these roles and responsibilities with the following objectives:

- (i) To diversify and expand exports base;
- (ii) To diversify and expand manufacturing and commercial sector;
- (iii) To improve investor and business confidence and ease of doing business;
- (iv) To improve market access of products and services to international markets;
- (v) To improve relations with all the stakeholders;
- (vi) To improve business regulatory environment;
- (vii) To ensure compliance with national and international standards;
- (viii) To enhance consumer protection awareness; and
- (ix) To improve communities livelihood through Co-operatives, Micro and Small Enterprise Development.

### **PART A: FINANCIAL STATEMENTS**

#### **32.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Industry and Trade resulted in the issue of an unqualified audit report.

#### **32.2 Statement of Receipts and Expenditure**

The Ministry collected revenue totaling \$809,474 and incurred a total expenditure of \$16.1 million in 2014.

Total revenue increased by 14% compared to 2013 which is largely due to an increase in weights & measures fees collected.

Total expenditure increased by \$4.5 million or 39% in 2014. The increase is explained by the following:

- Increase in Established Staff by 22% was due to the inclusion of salaries and wages for the Honourable Minister and Assistant Minister and support staff, pay rise approved for civil servants and recruitments to fill vacant positions.
- Increase in Operating Grants and Transfer was due to increase in Annual Revised Budget for Investment Fiji by \$0.75 million in the year 2014.
- Special Expenditure increased by \$2.1 million or 71% due to increase in Budget for National Export Strategy. In addition, budget was provided for new programs such as Trade Policy Framework, MSG Investment Road Show and Trade Fair, MSG Trade Ministers and Ministers Meetings, Trade and Investment Promotion Mission and Trade Commission's Office - PNG.
- Capital Purchase of \$0.5 million in 2014 relates to the purchase of Water Test Bench.

### **32.3 Appropriation Statement**

The Ministry incurred a total expenditure of \$16.1 million in 2014 against a budget of \$18.3 million resulting in a saving of \$2.2 million or 12%.

### **32.4 Statement of Losses**

The Board of Survey carried out in 2014 resulted in the write-off of furniture and office equipment valued at \$12,354.

## **Section 33: Ministry of Sugar**

### **Role and Responsibilities**

The Ministry is responsible for the coordination of the activities and functions of the various institutions that make up the sugar industry with the sole objective of ensuring that Government's commitment to reviving the industry is achieved. It is also responsible for the monitoring, evaluation and reporting of the implementation of the Sugar Industry Strategic Action Plan 2013 – 2017.

### **PART A: FINANCIAL STATEMENTS**

#### **33.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Sugar resulted in the issue of an unqualified audit report.

#### **33.2 Statement of Receipts and Expenditure**

The Ministry of Sugar incurred expenditures totaling \$18.6 million in 2014 compared to \$14.6 million in 2013.

The major components of expenditures in 2014 were the operating and capital grants of \$15.6 million to the Sugar Research Institute of Fiji (\$0.9 million), Sugar Industry Tribunal (\$0.5 million), South Pacific Fertilizers Ltd (\$5.75 million) and the Sugar Development Program (\$8.4 million). Total expenditures increased by \$4 million or 27% compared to 2013, which was largely due to the following:

- Established Staff increased by \$95,592 or 29% in 2014 compared to 2013. The increase was attributed to the recruitment of additional four project officers.
- Capital Grants and Transfers increased by \$4.4 million or 46% from 2013. The increase was attributed to a new program for Sugar Development, undertaken in conjunction with the Fiji Sugar Corporation to assist sugarcane farmers in the preparation of sugarcane farming lands.

#### **33.3 Appropriation Statement**

The Ministry incurred expenditures totaling \$18.6 million against the revised budget of \$19.9 million resulting in savings of \$1.3 million.

#### **33.4 Statement of Losses**

There was no loss of money or assets reported for the year ended 31 December 2014.

## PART B: AUDIT FINDINGS

### 33.5 Capital Expenditure Planning

Each year, the Appropriation Act and Budget Estimates set out details of the appropriations that Cabinet approves for spending by each agency. (*Section 2.1.2 – Ministry of Sugar Finance Manual 2013*)

The Ministry recorded savings of over \$1.3 million in 2014 of which \$1.05 million accounts for savings from capital expenditure allocations. In the 2014 budget, the Ministry was allocated \$3.2 million for capital expenditure relating to purchases and construction. The audit noted that the Ministry did not utilize 33% of budget for SEGs 8 and 9. Refer to Table 33.3 below for details.

**Table 33.3: Capital Expenditure Allocation**

| Allocation           | Description   | Revised Budget (\$) | Actual 2014 (\$) | Savings (\$) |
|----------------------|---|---------------------|------------------|--------------|
| 1-35000-00000-090000 | Purchase of Cultivators   | 600,000             | —                | 600,000      |
| 1-35000-00000-080000 | The fund was allocated for the cane access road upgrading and infrastructure development. | 2,600,000           | 2,145,199        | 454,801      |

The delays in processing of tenders for purchases of cultivators and farming implements resulted in government assistance not being supplied to farmers.

Capital expenditure planning, monitoring and continual reviews are necessary for capital expenditure programs to be effective.

The committee was informed that the Capital Expenditure allocation basically in summary, there was a zero utilisation on the Purchase of Cultivators allocation due to the delay in the tender process and the ineffective Capital Expenditure Planning, continual review of Capital Expenditure Project which resulted in the actual utilisation of \$2.1 million of the total budget of \$2.6 million in the Cane Access Road allocation.

The Committee agrees with the Auditor General's recommendations that

- The Ministry should improve capital expenditure planning to ensure that the funds are utilized for its intended purposes.
- Capital budgets should be monitored regularly to ensure that planned projects and government assistance are facilitated.

### 33.6 Grant Administration

Unless the Ministry advises the Corporation otherwise in writing, the Corporation shall furnish to the Ministry the agreement books and records at quarterly intervals. The reports shall cover all funds and activities financed under the grant for that interval. In addition, the Corporation shall furnish to the Ministry such other information and reports at such times as the Ministry may reasonably

request. The Ministry will from time to time specify in writing the guidelines for the contents and formats of the reports.

The Ministry provided \$8.4 million to the Fiji Sugar Corporation (FSC) for its cane development program in 2014. The objectives of the program were:

- To plant some 8,080 hectares of cane by the 2014 planting season.
- Over that area, an estimated yield of 65 TC/HA is expected to produce 525,000 tonnes of cane.
- Involving approximately 7,000 cane growers in all mill areas. (*MOU between the Ministry and FSC clause 20.2*)

The audit noted that the grant recipient did not provide acquittal reports on the utilization of government grants for the cane development program. Although a listing of farmers provided with the assistance was submitted, this was not independently monitored by the Ministry.

The Ministry may not be effectively monitoring the utilization of government grants for cane development programs, thus could not provide assurance that the \$8.4 million was used for its authorized purposes.

The committee was informed that the Ministry has now strengthened its monitoring and ensures that acquittals and progress reports are submitted before the funds are disbursed to the grant recipients. Now, before we release the funds to them, the Ministry will ask them for the acquittals and do not disburse them by whole sum, but just disburse them in quarterly. That is how the Ministry has managed to control in terms of ensuring that they submit the acquittal reports. Also, an officer has been appointed to monitor the progress of the development report which is in conjunction with FSC

The Committee agrees with the Auditor General's recommendations that:

- The Ministry should ensure that acquittal and progress reports are submitted by grant recipients and the reports verified by officials of the Ministry before disbursing subsequent grant.
- The Ministry should consider developing its own acquittal report format to ensure consistency in the provision of information by grant recipients.

### **33.7 Drawings Account Balance**

All bank accounts must be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. (*Finance Instructions 2010 – Section 32[6]*)

The Accounts Officer must verify balances in the bank reconciliation to the cashbook, bank statements, un-presented cheque list and the previous month's

bank reconciliation before certifying it. (*Finance Instructions 2010 – Section 7.4.11*)

The Permanent Secretary must appoint a Board of Survey to conduct a physical stock take of all cash on hand and other stocks held in safes at least once a year. (*Finance Instructions 2010 – Section 31[5]*)

The audit reviewed of the drawings account records revealed the following:

- There was no Board of Survey carried out for un-presented cheques balance at year end.
- In addition, there were unidentified cheques posted to the Ministry's allocation (AP470)

Despite the above issues being reported in prior years, to date these have not been resolved.

The committee was informed that there was no Board of Survey carried out for un-presented cheques balance for the year-ended hence the cheque amounting to \$71,549 posted to the Ministry's allocation was not identified.

Also, the Ministry's Accounts Section was virtually a one-woman section and it was not until to a state that she appointed a Clerical Officer to assist there. Initially, the Ministry made four submissions to the Public Service Commission to provide them with personnel but none of the proposal was acknowledged, not considered until there was a change in 2015. In the next budget consultation, it was then that the Ministry requested if they could consider their request for 10 additional staff and backed by the reports of the Auditor-General that the Ministry needed a number of staff for segregation of duties hence, now the Ministry have recruited some and some will be interviewed in a few weeks' time.

The Committee agrees with the Auditor General's recommendations that:

- The Ministry should ensure that proper and accurate drawings account reconciliations are carried out on a monthly basis. Any unidentified posting that are not related to the Ministry's activities should be investigated.
- Board of survey on un-presented cheques should be carried out at year end as required.



## **Section 34: Ministry of Public Enterprise and Tourism**

### **Role and Responsibilities**

The Ministry consists of two departments and focuses on the following core responsibilities:

#### **Public Enterprise**

Oversees and implements reform programmes and monitors the performance and operations of public enterprises to increase their efficiencies and effectiveness in terms of financial growth and improvements in services to the public.

#### **Tourism**

Formulates and administers tourism policies, plans and initiatives for the sustainable development of the Tourism Industry in Fiji.

### **PART A: FINANCIAL STATEMENTS**

#### **34.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Public Enterprises and Tourism resulted in the issue of an unqualified audit report but with attention drawn to the following "Other Matter":

- Total Capital Expenditure of \$31.8 million, as stated in the Statement of Receipts and Expenditure, did not include an expenditure paid from Head 50 – Miscellaneous Account maintained by the Ministry of Finance totaling \$3.6 million. The additional fund was allocated to cater for the shortfall payment and tax clearance for the Professional Golfers Association of Australia Limited in relation to the Fiji International (PGA) Tournament in 2014.

#### **34.2 Statement of Receipts and Expenditure**

The Ministry collected revenue totaling \$107,769 and incurred a total expenditure of \$37.5 million in 2014.

Fees from Board of Directors trainings organized in 2014 were a significant source of revenue collected by the Ministry. Revenue increased by \$91,645 or 568% compared to 2013.

The major component of expenditures in 2014 was the operating and capital grants of \$26.5 million to the Tourism Fiji. Total expenditures increased by \$8.9 million or 31% compared to 2013, which was largely due to the following:

- Established staff increased by \$441,724 or 49% due to recruitments made during the year for vacant positions.

- Purchase of goods and services increased by \$314,793 or 548% as a result of procurements of new office furniture and computers and the provision of training to Directors of Government entities that are governed by the Public Enterprise Act 1996.
- Special expenditure increased by \$202,786 or 201% due to the implementation of Fiji Tourism Development Master Plan in 2014.
- Capital grant and transfer increased by \$8.3 million or 35%, which represented expenditures related to the Fiji International Golf Tournament at the Natadola Bay Course. An additional \$3.6 million was paid from Head 50 – Miscellaneous Account maintained by the Ministry of Finance, as stated on Section 34.1.

### 34.3 Appropriation Statement

The Ministry's expenditure of \$37.5 million in 2014 was incurred against a budget of \$40 million resulting in a savings of \$2.5 million or 6%.

## PART B: AUDIT FINDINGS

### 34.4 Capital Expenditure – Other Matter

According to the financial statements for the year ended 31 December 2014, the Ministry incurred total capital expenditure of \$31,776,456.

The balance disclosed in the financial statements did not include other expenses paid from Head 50 – Miscellaneous Account maintained by the Ministry of Finance totaling \$3.6 million. The additional fund was paid to the Ministry to cater for the shortfall payment and tax clearance for the Professional Golfers Association of Australia Ltd in relation to the Fiji International (PGA) Tournament in 2014.

Refer to Table 34.3 for expenditures incurred for the Fiji International (PGA) Tournament

**Table 34.3: Expenditures – Fiji International (PGA) Tournament**

| Particulars                     | Amount<br>(\$)         |
|---------------------------------|------------------------|
| Paid from the Ministry's SEG 10 | 8,276,456.11           |
| Paid from SLG 84                | 3,607,201.86           |
| <b>Total</b>                    | <b>\$11,883,657.97</b> |

The disclosure of all expenses relating to the operation of the Ministry is necessary for the completeness and accuracy of expenditure reported and disclosed in the financial statements.

The Committee concurs with the Auditor General's recommendations that the Ministry disclose as Notes to the financial statements other expenditures incurred for its operations which have been paid for by the Ministry of Finance and other donors.

### 34.5 Unexplained Account Balances

The Accounting Officer is responsible for maintaining ledgers and reconciling balances in such ledgers to ensure the accuracy of financial information and the timeliness of management reports. (*Finance Manual 2011 – Part 14 Ledger Account – Introduction Paragraph*)

Audit review of the general ledger (FMIS) revealed some unexplained account balances reflected in Ministry's trial balance. The balances have been carried forward from previous years. Refer to Table 34.4 below for details.

**Table 34.4: Unexplained Account Balances**

| Account Type         | Account Description                | 2014<br>(\$) | 2013<br>(\$) |
|----------------------|------------------------------------|--------------|--------------|
| 1-36101-36999-910101 | APP Surplus & Deficit –Prior Years | 348,182.28   | 176,385.99   |

The Ministry confirmed that the postings in SLG 91 allocation were made by the Ministry of Finance.

The Ministry of Finance explained that the balances are the net reflection of the balance sheet items under the Ministry. However, this could not be substantiated.

The Ministry of Finance also approved the write-off of \$181,994 from the Operating Trust Fund and Drawings Accounts against Equity (SLG 91). However, audit could not validate the write-offs as there were no supporting documents provided for audit.

Refer to Table 34.5 below for details.

**Table 34.5: Details of Account Balances Written Off**

| Allocation                          | Descriptions             | Amount (\$)         |
|-------------------------------------|--------------------------|---------------------|
| <b>Operating Trust Fund Account</b> |                          |                     |
| 1-36201-36201-861920                | 501 PD Employees FNPF    | (2,040.97)          |
| 1-36101-36101-861920                | 501 PD Employees FNPF    | (77,343.00)         |
| 1-36101-36999-861901                | 201 PD Tax Arrears /PAYE | (253.25)            |
| 1-36101-86999-8619306               | 263 PD Housing Authority | (100.00)            |
| 1-36201-36201-8619202               | 241 PD CMLA              | (244.81)            |
| 1-36201-36201-861533                | 320 Wesram Finance       | (288.00)            |
| <b>Sub-Total</b>                    |                          | <b>(80,270.03)</b>  |
| <b>Drawings Account</b>             |                          |                     |
| 1-36101-86999-530301                | Drawings BSP – Suva      | (96,817.18)         |
| 1-36201-36999-530301                | Drawings BSP – Suva      | 93.34               |
| 1-36101-36999-530301                | Drawings BSP – Suva      | (5,000.00)          |
| <b>Sub-Total</b>                    |                          | <b>(101,723.84)</b> |
| <b>Total</b>                        |                          | <b>(181,993.87)</b> |

In addition, a drawings account balance was written off against the expenditure allocation for Travel & Communications (SEG 3) without proper adjustments, therefore overstating Travel & Communications expenses by \$5,000.

In the absence of proper records/explanations, it is difficult to authenticate the accuracy of the balances appearing under the above allocations in the FMIS general ledger.

The committee was informed that this issue has been resolved and can be confirmed by the Office of the Auditor-General. The committee was advised that there are no more balances carried forward in our 2016 financials and the exercise we are doing with the Auditor-General that has been cleared. It has been done through the adjustments with the Ministry of Economy (MOE), the normal adjustments especially with the dormant accounts that had occurred over the years, so we confirm that that is clear.

The Committee concurs with the Auditor General's recommendations that:

- The Ministry should ensure that transactions posted to the FMIS general ledger and any write-offs made are supported with documentary evidences which should be produced during the audit.
- The Ministry should seek clarifications from the Ministry of Finance on allocations under its Head that it cannot explain neither have records to substantiate the balances.

## **Section 35: Ministry of Works and Transport**

### **Role and Responsibilities**

The Ministry of Works and Transport is responsible for providing policy, planning, coordination, design, construction, operation, maintenance and management of programmes or activities related to public buildings, mechanical and electrical services, roads, bridges, and jetties. The Ministry is also responsible for any policy and administrative support services to the transport sector, focusing on land and maritime in particular its key players including the private sector transport operators, transport regulators (land and maritime), Government agencies and the public at large. This will enable the enhancement and facilitation of an efficient and sustainable transportation system and Meteorological Services within the country.

The Ministry is also responsible for the provision of an efficient meteorological and hydrological service in Fiji.

The implementation of policies involves the Transport Planning Unit, Meteorological Service Department and Public Works Department – Common Services.

### **PART A: FINANCIAL STATEMENTS**

#### **35.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Works and Transport resulted in the issue of a qualified audit report. The issues qualified are as follows:

- Included in the TMA Balance Sheet is TMA Accumulated Surplus of \$355,684, TMA Surplus of \$4.69 million, Accounts Receivable of \$2.11 million, Accounts Payable of \$271,036 and Deposits and Deductions of \$52,784. The amounts could not be verified as the Ministry was not able to provide appropriate audit evidence to support the balances; and
- An un-reconciled variance amounting to \$1.34 million exists between the FMIS general ledger and the TMA bank reconciliation for Cash at Bank. Accordingly, the accuracy and completeness of the TMA Cash at Bank of \$2.55 as at 31 December 2014 could not be established.

#### **35.2 Statement of Receipts and Expenditure**

The Ministry collected revenue totaling \$786,792 and incurred a total expenditure of \$52.24 million in 2014. Revenue collection decreased by 6% in 2014 due to the reduction in reimbursements for meteorological services. The total expenditure increased by 8% or \$3.66 million from 2013 and this was largely due to the following:

- recruitment to fill vacant positions and pay rise for civil servants in 2014;
- increase in operating grants for the Land Transport Authority of Fiji;

- increase in implementation of projects for Department of Works between 2013 and 2014; and
- Increase in budgets allocated for Capital Purchase and Capital Grants.

### **35.3 Appropriation Statement**

The Ministry of Works and Transport incurred expenditure totaling \$52.24 million in 2014 against a revised budget of \$55.97 million resulting in a savings of \$3.73 million or 7%.

### **35.4 Statement of Losses**

There was no loss of money or assets reported for the year ended 31 December 2014.

### **35.5 Trade and Manufacturing Account (TMA)**

The committee was advised that there was a notice in Tables 35.3 to 35.6, a comparison, and we have put a note there that in the previous year, there was loss of \$640,000 but in 2013 and then in 2014, the Ministry made a profit of \$1.1 million.

## **PART B: AUDIT FINDINGS**

### **35.6 Payments to Plant Hire**

The Accounting Head must not certify a payment as correct unless they are satisfied that:

- i. it is in accordance with an LPO, indent, contract, invoice, statement or other authorization;
- ii. there is documentation that the goods, services or works have been received;
- iii. sufficient uncommitted funds are available for payment of the account;
- iv. the account is not fraudulent and has not been previously paid;
- v. the expenditure account it is charged to is correct. (*Ministry of Works, Transport and Public Utilities Finance Manual 2013, Section 2.8.4*)

When the Ministry hires vehicles from the Plant Hire TMA, the Plant Pool approves the requests and allocates a driver for the job. The driver then fills out the daily running sheet which is certified by the Transport Officer. A debit note is then prepared detailing the total charges incurred which is certified by the Principal Engineer Mechanical and issued to the respective Sections of the Ministry for certification. The Section Heads certify that the charges are correct after which a debit note is issued to Accounts Section for payment.

The audit also noted instances where payments were processed without all debit notes being certified by the Section Heads.

The findings indicate that payments were not reviewed by the Accounts Section before being processed in the FMIS general ledger. There is potential risk of unauthorized or fraudulent transactions passed in the FMIS general ledger.

The committee was informed that the Ministry have been monitoring all payments where section heads are required to endorse the running sheets for their particular section, the vehicles that they hire, so that they are aware of what the runs are doing and whether those are the actual costs so the HODs are signing those forms. There were instances where HODs had not signed but we have taken that on board and before any payment is processed, HODs are now endorsing for payment.

The Committee agrees with the Auditor General's recommendations that:

- It is recommended that all supporting documents are attached to the payment vouchers; however, if maintained separately, this should be indicated in the payment vouchers and provided for audit.
- Debit Notes should be properly certified before payments.

### **35.7 Anomalies in Operating Trust Fund Account**

Within three days of receiving the monthly general ledger reports from the Ministry of Finance, the ledger keeper shall reconcile the ledger balances to the general ledger reports and prepare a ledger reconciliation statement. (*Ministry of Works, Transports and Public Utilities Finance Manual 2013, Section 16.3.3*) Any errors or misallocations must be immediately adjusted by way of journal vouchers. (*Ministry of Works, Transports and Public Utilities Finance Manual 2013, Section 16.3.4*)

Details of balances must be attached to the reconciliation statement. (*Ministry of Works, Transports and Public Utilities Finance Manual 2013, Section 15.4.2*) The trust officer shall certify and date the reconciliation statement after ensuring that all balances in the statement are verified to supporting documents. (*Ministry of Works, Transports and Public Utilities Finance Manual 2013, Section 15.4.3*)

Trust money is to be accounted for separately from public money and other money (*Finance Management Act 2004, Section 25[1]*), and by convention should always have credit balances. Thus, the Trust Fund Accounts should not at any time be overdrawn. (*Finance Circular No. 4/98 of 30/03/98*)

The trust fund officer shall certify and date the reconciliation statement after ensuring that all balances in the statement are verified to supporting documents. (*Ministry of Works, Transports and Public Utilities Finance Manual 2013, Section 15.4.3*)

Audit review of records for the Operating Trust Fund Accounts revealed the following anomalies, most of which were recurring issues from previous years:

- Operating Trust Fund Account under Program 6 (former Department of Roads) was still an active account in 2014. There was a decrease in JC Retention Money allocation from 2013 to 2014 by \$10.35 million or 86%. The Ministry explained that these posting were not made by them. Questions raised with the Ministry of Finance regarding the transaction were not answered. This balance reflected in the FMIS general ledger could not be substantiated against any reconciliation. Refer to Table 35.8 below for details.

**Table 35.8: Operating Trust Fund Account under Program 6**

| Account No.          | Account Description    | Actuals 2014<br>(\$)  | Actuals 2013<br>(\$)   | Variance<br>(\$)     |
|----------------------|------------------------|-----------------------|------------------------|----------------------|
| 1-40601-84999-861106 | 390 PD GOV WATER RATES | (758.50)              | (758.50)               | ---                  |
| 1-40601-84999-861920 | 501 PD EMPLOYEES FNPF  | (23,288.08)           | (23,288.08)            | ---                  |
| 1-40601-91991-861920 | 501 PD EMPLOYEES FNPF  | (154,365.28)          | (154,365.28)           | ---                  |
| 1-40601-84999-862102 | JC RETENTION MONEY     | (1,681,904.09)        | (12,035,674.58)        | 10,353,770.49        |
| 1-40104-40999-861924 | MPAISA                 | 36.00                 | 36.00                  | ---                  |
| <b>Total</b>         |                        | <b>(1,860,279.95)</b> | <b>(12,214,050.44)</b> | <b>10,353,770.49</b> |

- As at 31/12/14, the Departments/Divisions had significant balances in the Operating Trust Fund accounts. Debit balances signified overdrawn accounts while the credit balances indicated that payroll deductions were yet to be paid out to the relevant entities. The significant balances also indicated that these accounts were not properly cleared off. Refer to the Table 35.9 below for details.

**Table 35.9: Significant credit and debit balances as at 31/12/14**

| Division                           | Amount<br>(\$) |
|------------------------------------|----------------|
| Headquarters                       | (1,205,034.59) |
| DE – Works Central Eastern         | 1,218,513.82   |
| DE – Works Central Eastern TMA 263 | 182,428.02     |
| DE – Works Central Eastern TMA 251 | 72,642.89      |
| DE – Works Western                 | (12,365.26)    |
| DE – Works Northern                | 547,210.83     |
| Meteorology                        | (23,427.38)    |

- The closing balances of the Department of Work's Operating Trust Fund account reconciliation statement did not reconcile with the FMIS general ledger as at 31 December 2014.

The Division has failed to account for VAT on revenue in its reconciliation which has resulted in the variances between the FMIS general ledger and reconciliation statements.



- A significant number of accounts had debit closing balances implying that they were overdrawn as at 31 December 2014. The Ministry failed to provide any satisfactory explanations for the overdrawn accounts.
- The details of a number of Operating Trust were not provided in the reconciliation statement for December nor were documents provided during the audit to support the balances. Refer to Table 35.11 below for details.

**Table 35.11: Operating Trust Fund Account without Details**

| Account No.                         | Account Description          | Amount (\$)  | Total (\$)     |
|-------------------------------------|------------------------------|--------------|----------------|
| <b>Headquarters</b>                 |                              |              |                |
| 1-40501-83999-860101                | SECURITY DEPOSITS            | (13,209.05)  |                |
| 1-40501-83999-860103                | TENDER DEPOSITS              | (951,202.35) |                |
| 1-40501-83999-861901                | 201 PD TAX ARREARS / PAYE    | (197,457.85) |                |
| 1-40501-83999-861920                | 501 PD EMPLOYEES FNPF        | (24,545.02)  |                |
| 1-40501-83999-862101                | AP RETENTION MONEY           | (12,576.18)  |                |
| 1-40501-83999-863201                | VAT ON REVENUE               | (5,573.30)   | (1,204,563.75) |
| <b>Divisional Engineer Northern</b> |                              |              |                |
| 1-40501-97991-861106                | 390 PD GOV WATER RATES CHRGS | 29,509.61    |                |
| 1-40501-97991-861202                | 241 PD CMLA                  | 26,095.87    |                |
| 1-40501-97991-861204                | PAYROL DEDUCTIONS-LICI       | 6,821.55     |                |
| 1-40501-97991-861920                | 501 PD EMPLOYEES FNPF        | 475,626.11   | 538,053.14     |

The above anomalies imply ineffective controls and lack of supervisory checks in the Accounts Section. This also indicates that the reconciliation process was not effectively performed.

The committee was advised that the Ministry had written to the Ministry of Economy for a write-off because this did not belong to the Ministry and it had been approved and written-off. There were significant credit and debit balances. This included figures from previous years or past years and with insufficient records, again it was in the Ministry's system so we requested for a write-off exercise to be carried out on this and this was approved and written off

The Committee concurs with the Auditor General's recommendations that the Ministry should:

- Strengthen the monthly reconciliation process to mitigate the various anomalies;
- Ensure that monthly reconciliations are carried out properly and accurately and Accounts Officers should be proactive in investigating and resolving un-reconciled balances;
- Ensure that errors and discrepancies in the reconciliation statements are corrected promptly before subsequent month's reconciliation statement is prepared; and
- Ensure that overdrawn accounts are investigated with appropriate actions taken.

### 35.8 Other Prior Year Recurring Issues

A number of significant issues were raised with recommendations for improvements in previous years' audits. While some issues have been rectified, some issues have yet to be resolved or are the process of being resolved. These recurring issues noted by the Auditor General as follows:

- 1) Unsubstantiated TMA Balances
- 2) Program 6 General Ledger Accounts
- 3) Drawings Account
- 4) Poor Maintenance of Accounting Records
- 5) Job Allocations for Operating Fund Account Capital Projects
- 6) Anomalies in Expenditure and Records – Building Section

**The Committee recommends that the Ministry should take immediate action in ensuring that the above anomalies identified by the Auditor-General are addressed and resolved appropriately.**

## **Section 36: Ministry of Public Utilities and Energy**

### **Role and Responsibilities**

The Ministry of Public Utilities and Energy is responsible for formulating policies in the Energy and Water and Sewerage sectors and the establishment of a responsive legal framework to govern the development of essential services.

The Department of Energy will focus on accelerating electricity infrastructure development to expedite the provision of electricity services to the rural population. These include assisting rural communities with connections to FEA electricity network, provision of stand-alone diesel generator and where there are sufficient resources for renewable energy technologies (evaluated after resource analysis) installation of either wind, hydro, biomass or standalone solar home systems. The Department addresses four key strategic areas namely: Energy Security; Energy Planning; Power Sector and Renewable Energy.

The Department of Water and Sewerage is the regulatory arm of the water and sewerage sector to oversee the provision of safe drinking water and an efficient sanitation service is provided to all communities. The establishment of a legal framework on the regulatory and quality control function will be pursued thus ensuring the best services are provided by the relevant agencies. In addition, the department will embark on research and development works relevant to water and sewerage technologies.

### **PART A: FINANCIAL STATEMENTS**

#### **36.1 Audit Opinion**

The audit of the 2014 accounts of the Ministry of Public Utilities and Energy resulted in the issue of a qualified audit report.

The basis of qualification was:

- An un-reconciled variance of \$1,189,645.65 exists in the Department of Energy's Main Trust Fund Account Statement of Receipts and Payments and the general ledger (FMIS) balance as at 31 December 2014. As a result, I was not able to substantiate the correctness of the Main Trust Fund Account balance of \$2,154,797 as at 31 December 2014.
- The Department of Water & Sewerage maintained security deposits totaling \$1,161,883.81 as at 31 December 2014 in the Operating Trust Fund Account. The security deposits were received from the contractors engaged in water and sewerage projects. The Department did not maintain a Main Trust Fund Account and a separate bank account for the security deposits. As a result, the Statement of Receipts and Payments for the security deposits were not disclosed in the Special Purpose Financial Statements.

## 36.2 Statement of Receipts and Expenditure

The Ministry of Public Utilities and Energy collected revenue amounting to \$11,239 and incurred total expenditure of \$169,353,186 in 2014.

The Ministry's State Revenue increased by \$1,031 or 87.6% compared to 2013 due to increase in commission revenue and OPR in previous years while the Agency Revenue decreased by \$7,488 or 45.3% in 2014 compared to 2013 due to the reversal of stale cheques for the current year that was adjusted in the same current year.

The Ministry's total expenditure increased by \$42,301,885 or 33.3% in 2014 compared to 2013 as a result of the followings:

- The Established Staff costs increased by \$297,001 or 22.6% in 2014 compared to 2013. This was mainly due to vacant posts being filled and 2014 pay rise for all civil servants as per PSC Circular No. 81/2013 dated 19/12/13
- The Government Wage Earner costs increased by \$10,832 or 8.3% in 2014 compared to 2013. This was mainly due to increase in payment of overtime for drivers who are severely involved in the provision of services to project officers to monitor the capital projects and pay rise for all civil servants as per PSC Circular No. 81/2013 dated 19/12/13
- The Travel and Communication cost increased by \$22,363 or 17.8% in 2014 compared to 2013. This was mainly due to increase in payment of travel expenses for Project Staffs travelling to inspect Capital Projects at Main Island and Maritime Zones.
- The purchase of Goods and Services increased by \$86,789 or 31.9% in 2014 compared to 2013. This was due to the increase in expenses relating to advertising, promotions and training.
- The Operating Grants and Transfers increased by \$968,765 or 1.7% in 2014 compared to 2013, as there was an increase in operating grants for Water Authority of Fiji. This is fully controlled and administered by the Department of Public Enterprise and Public Sector Reform.
- The Capital Construction increased by \$10,233,961 or 450.7% in 2014 compared to 2013. This was mainly due to the inclusion of Grid Extension Projects namely; Rural Power Grid Extension - Tavua/Korovou – TFZ; Sauniwaqa Grid Extension – Nakasi; Koronubu/Nabau Grid Extension, Lewarua/Nasivikoro Grid Extension and Nakasa/Uluivalili Secondary School Grid Extension under Department of Energy's Budget.
- The Capital Grants and Transfers increased by \$31,805,705 or 51.7% in 2014 compared to 2013 due to the increase in capital grant for Water Authority of Fiji.
- The Value Added Tax increased by \$1,018,443 or 100.5% in 2014 compared to 2013. The increase was due to the increase in expenditure in other operating SEGs.

### **36.3 Appropriation Statement**

The Ministry incurred actual expenditures totaling \$169,353,186 in 2014 against the revised budget of \$172,046,928 resulting in a savings of \$2,693,742 or 1.6%.

### **36.4 Statement of Losses**

#### ***Loss of Money***

The Ministry recorded a loss of \$6,144.20 through misappropriation of funds in the Department of Energy Trust Fund Account.

#### ***Loss (other than money)***

The Board of Survey for 2014 was carried out for all the sections of the Ministry. The Board of Survey report is yet to be finalized and approved by Ministry of Finance as at the balance date.

### **36.5 Trust Fund Account Statement of Receipts and Payments**

The Department of Energy Main Trust Fund Account had \$2,154,797 credit balance for the year 2014 compared to a credit balance of \$1,623,366 in 2013.

## **PART B: AUDIT FINDINGS**

### **DEPARTMENT OF WATER AND SEWAGE**

#### **36.6 Separate Trust Fund Account for Security and Retention Deposits**

Trust money is money that the agency is holding in trust. Trust money is to be kept in a separate bank account and accounted for separately from "public money" and "other money". A bank account for public money, other money or trust money must only be established with the approval of the Chief Accountant, who must inform the bank of the agency of the officers authorized to operate the account.

The audit noted that the Department maintained security deposits totalling \$1,161,883.81 received from the contractors engaged in water and sewerage projects together with the Departments' Operating

Trust Fund account number 1-41201-85999-860101. As at 31/12/14, the Operating Trust Fund account had a balance of \$1,161,883.81 as security deposits.

The audit noted that the Department did not maintain a separate Main Trust Fund bank account for the security deposits received from the contractors. The security deposits received from the contractors were deposited into the Consolidated Fund account and recorded in the Operating Trust Fund account.

As a result, the Operating Trust Fund account was over stated by \$1,161,883.81.

The committee was informed that these were the Retention Security Deposits which existed with the Department of Water & Sewerage prior to the formation/establishment of the WAF. It was still in existence before, the transition period and the Retention Security Deposit is a non-cash deposit received from the contractors.

The Committee agreed with the Auditor General's recommendation that the Department should liaise with the Ministry of Finance to open up a Main Trust Fund account for receipt and payment of security and retention deposit monies from the contractors.

### **36.7 National Water and Sanitation Database**

The Department in line with the National Water Resource and Sanitation Policy worked on a plan to implement a National Water and Sanitation Database. The objective of the database was to provide real time information about water and sanitation management in Fiji.

The Department paid \$12,696 in 2014 to ITC services to develop National Water and Sanitation database. The database was to have been implemented in July 2014. The audit noted that ITC services completed the development of the database in June 2015. The project was delayed by 11 months.

The audit further noted that the Department was not able to access the database due to connectivity limitations. Hence the Department was not able to use the database.

According to the Technical Officer Water and Sewerage, (EDP Number 93165) the development of the database was delayed mainly due to the difficulty in identifying the different types of information available and integrating those information into the database. The Department had to continuously amend the database to enable it to capture all the information available.

The findings indicate that the Department did not properly plan for the development of the database. The database developed is not in use and resulted in the waste of public funds.

The committee was advised that the Audit noted that ITC Services completed the development of the database in June 2015. The project was delayed by 11 months.

In regards to that, the Ministry had noted that the delays were the internet connection for the Department and ITC in finalising the works for the provision of internet TO our Department staff.

Arrangements are currently in place for the relocation of the Department to Level 3 of Nasilivata House. The Department of Water and Sewerage was previously based at Richard Street, then they moved to Gaunavou House and then later on, they were relocated to Nasilivata House due to the availability of space. So we saved on paying rental at Gaunavou House and there was a bit of delay in the connectivity but it has been connected and up and running now.

The Committee concurs with the Auditor General's recommendations that the Department should:

- Carry out a feasibility study and properly plan for such works in future; and
- Liaise with ITC to resolve the connectivity problem.

## DEPARTMENT OF ENERGY

### 36.8 Main Trust Fund Account Balance – Department of Energy

Within 5 days after the end of each month, the accounts officer shall prepare a trust reconciliation to reconcile trust account balances to the ledger total and the trust bank account. (*Ministry of Works, Transport and Public Utilities Finance Manual 2012 Section 15.4.1*)

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and be signed and dated by the responsible officer. (*Section 39[5] – Finance Instruction 2005*)

The Department of Energy's Main Trust Fund account had a balance of \$3,344,442.98 in FMIS general ledger while the Statement of Receipts and Payments had a balance of \$2,154,797.33 as at 31/12/14. The audit noted that the Department failed to reconcile the Statement of Receipts and Payments balances with the Main Trust Fund General Ledger (FMIS) balance as at 31/12/14.

As a result the Department had an un-reconciled variance of \$1,189,645.65 between the Main Trust Fund account general ledger and the Statement of Receipts and Payments balance as at 31/12/14. Refer to Table 36.4 below for details.

**Table 36.4: Variances in Energy Main Trust Fund Account**

| Balance as per<br>Statement of Receipts<br>and Payments<br>(\$) | Balance as per<br>Main Trust Fund<br>Ledger (FMIS)<br>(\$) | Variance<br>(\$) |
|---|--|------------------|
| 2,154,797.33  | 3,344,442.98   | 1,189,645.65     |

Furthermore, the audit noted that the Department had prepared monthly bank reconciliation for the Main Trust Fund account. However the audit failed to

ascertain the accuracy and completeness of the bank reconciliation as the reconciliations were not prepared and audited prior to 2014.

The finding indicates that proper reconciliations were not carried out by the Department.

As a result audit was not able to ascertain that all receipts and payments had been accurately accounted for in the Main Trust Fund account.

The committee was informed that the Department of Energy's Main Trust Account had a balance of \$3,344,442.96 in FMIS General Ledger while the Statement of Receipts and Payments had a balance of \$2,154,797.33. This had been reconciled, the variances have been posted which had been collected by the Ministry of Provincial Development and the balance had been written off which could not be identified.

The Committee agrees with the Auditor General's recommendations that the Department should:

- Investigate these variances in the Main Trust Funds and take appropriate action; and
- Strengthen internal control procedures in the Accounts Section to avoid such discrepancies.

### **36.9 Supply, Installation and Rehabilitation Works of Solar Home System**

The GTB in its meeting held on 11/10/13 approved to award the Contract for installation of Solar Home Lighting System for rehabilitation works at Yasawa, Bua and Macuata to Powerlite Generators at a cost of \$24,886. The contract agreement was signed on 28/02/14.

The contract was for the installation of Solar Home Lighting System for 76 households in Yasawa, 45 households in Bua and 22 households in Macuata. According to the contract agreement, the Contractor was to be paid \$14,931.60 or 60% of the contract amount after completing the wiring of houses in Yasawa and Bua.

However the Department paid 60% of the contract amount totalling \$14,931.60 to the Contractor on 02/09/14 despite the inspection report dated 25/4/14 stated that 11 houses in Yasawa and 2 houses in Bua were not wired due to poor structure of the houses.

The Department could not provide the cost of wiring per household, hence the audit could not calculate the amount overpaid to the Contractor for not wiring all the houses in Yasawa and Bua.

The above finding indicated that payments were processed without considering the progress of the projects. This indicates laxity on the part of the project



management team and the Director of Energy. Failure by the Department to properly monitor the installation works has resulted in overpayment to the Contractor and loss of public funds.

The committee was informed that the Government Tender Board approved the tender for the supply and installation of the Solar Home Lighting System to Powerlite Fiji Ltd at the cost of \$166,676 for rehabilitation works at Yasawa, Bua and Macuata. The total cost for supply amounting to \$141,790 has been made by the Department to Powerlite.

For the installation works, the Department has the retention component of \$1,244.30 and Performance Bond of \$3,732.90 retained with the Department, totalling \$4,977.20.

The sum of \$1,278.07 will be deducted from the contractor's remaining balance of retention and Performance Bond after the expiry of the Defects Liability period in 2015. That sum has been recovered from the final payment of the retention sum to the contractor in 2015. Also, there was no disciplinary action has been taken, a warning letter has been given

The Committee agrees with the Auditor General's recommendations that the Department should take disciplinary action against officers responsible for laxity on their part despite the overpaid amount been recovered.

#### **36.10 No Agreement with FEA**

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur.

All Government contracts must be prepared by the organization and should be vetted by the Solicitor General. (*PSC Circular No 23/2001*) The contract must clearly outline all the necessary terms and conditions of the agreement.

The GTB in its meeting held on 03/09/14 approved to award the contract for Grid Extension for the Lewarua/Nasivikoso Project to Fiji Electricity Authority (FEA) at a cost of \$600,000 (VIP). The Department made an advance payment of \$600,000 on 17/11/14 to FEA for the Grid Extension Project.

The audit noted that the Department did not have a written contract agreement between Fiji Electricity Authority and the Department to carry out the Grid Extension for the Lewarua/Nasivikoso Project. In addition, as at the date of audit (*8<sup>th</sup> May 2015*), FEA had not commenced with the Grid Extension Project.

The findings indicate that government's interest are not fully protected which may result in loss of public funds. In absence of a contract agreement the Department may not be able to take any action against FEA for delays or non-performance.

The committee was informed that the Grid Extension for the Lewarua/Nasivikoso Project is being co-funded between the Department of Energy and FEA on 50 percent basis, FEA, being the sole supplier in this instance which reports to the Permanent Secretary for Ministry of Infrastructure & Transport. The contract has been vetted by the OAG on 17th March, 2015 and will be signed in due course.

The current status at all the Grid Extension Projects; now, the Ministry have a contract agreement between the Ministry and FEA and this is being vetted by OAG's Office and FEA also does not accept any payment until a signed contract is in place.

The Committee agrees with the Auditor General's recommendations that the Department should:

- Ensure that an agreement is entered into with FEA for the Grid Extension Project; and
- Instigate disciplinary action against officers responsible for making advance payment without a contract agreement.

### **36.11 Accounting for Retention Sum**

The Department should maintain a Trust Fund Account to deposit all retention sums deducted from the progress payments made to the Contractors where applicable

The Department carried out several capital projects during the year 2014. The progress payment was made to the Contractors after subtracting the retention sum. However, the amount deducted as retention sum was not deposited into a Trust Fund account and remained in the Department's budget allocation.

In addition the retention sum held by the Department for the capital projects was not recorded in the FMIS general ledger. Refer to Table 36.5 for examples of contracts for which retention sums were deducted and maintained within the budgetary allocation.

**Table 36.5: Examples of Contract for which Retention Sums were deducted**

| Contract Number | Contract  | Contract Sum (\$) | Percentage of Retention | Retention Amount (\$) |
|-----------------|---|-------------------|-------------------------|-----------------------|
| CTN 76          | Installation of 1,200 Solar Home System                                   | 251,255.00        | 5                       | 12,562.75             |
| CTN 101         | Contract for FEA House Wiring projects                                    | 261,740.44        | 10                      | 26,174.04             |
|                 |   | 254,833.50        | 10                      | 25,483.35             |
|                 |   | 134,028.09        | 10                      | 13,402.81             |
| CTN 160         | Contract for FEA House Wiring projects                                    | 353,648.50        | 10                      | 35,364.85             |
|                 |   | 80,706.84         | 10                      | 8,070.68              |
|                 |   | 288,429.47        | 10                      | 28,842.95             |
| CTN 74          | Contract for Installation of Solar Home System in Yasawa, Bua and Macuata | 24,886.00         | 5                       | 1,244.30              |
| CTN 100         | Contract for Diesel Underground Reticulation & House Wiring Project       | 661,714.00        | 10                      | \$66,171.40           |
|                 |   | 50,426.00         | 10                      | 5,042.60              |
| CTN 144         | Contract for Seqaga Dreketi FEA House wiring projects                     | 246,113.00        | 10                      | 24,611.30             |
|                 |   | 244,490.00        | 10                      | 24,449.00             |
|                 |   | 181,076.00        | 10                      | 18,107.60             |
|                 |   | 62,922.00         | 10                      | 6,292.20              |

The above finding indicates that the proper procedures were not followed for retention sum held for the capital projects.

There is a risk that the Department may not have sufficient funds available when defect liability period ends and retention payments fall due.

The committee was advised that the total sum of the project, whatever amount is payable upon the completion of the project, they are paid. The retention sum is now deposited into the Fiji Procurement Office Trust Account since they were operating this Trust Account on behalf of the whole of Government.

The committee was also informed that upon completion and after the Defects Liability Period, they have been refunded as this used to be paid from the budget previously. It had been utilised, chewing up for other projects but now what the Ministry is doing now is, it is in the Trust Account set aside so when if there are any dues, it is paid out from this account.

The Committee concurs with the Auditor General's recommendations that the Department should:

- Liaise with Ministry of Finance to open a separate general ledger allocation to record the retention funds and deposit the retention sum into the existing Department of Energy Trust Fund Account; or
- Open a separate Trust Fund account to deposit the retention sum.

## **Section 37: Government Shipping Services**

### **Programme Statement**

The Government Shipping Services is responsible for the promotion and facilitation, in accordance with government policies and priorities, the national need for sea transportation.

This is through the provision of shipping and marine navigational aids services, meeting Fiji's obligation to international maritime conventions and the maritime community.

In recognition of the inter relationship between sea transportation and the wider economy, these services play an important role in the development of urban, rural islands and coastal economies on a sustainable basis aimed at maximizing the contribution of the respective sectors to the national economy, thereby improving the standards of living of all people throughout Fiji.

### **PART A: FINANCIAL STATEMENTS**

#### **37.1 Audit Opinion**

The audit of the 2014 accounts of the Government Shipping Services resulted in the issue of an unqualified audit report.

#### **37.2 Statement of Receipts and Expenditure**

The Department collected revenue totaling \$118,191 and incurred a total expenditure of \$17.8 million in 2014

#### **37.3 Appropriation Statement**

The Department recorded an increase in revenue by 57% compared to 2013. This is attributable to increase in fare and freight charges by 23% and increase in miscellaneous revenue due to the reversal of stale cheques and voided per diem allowances of \$17,418.

Overall total expenditure increased by \$4.8 million or 37% compared to 2013 and was primarily due to the following:

- Filling of vacant positions and pay rise in 2014 for civil servants as per PSC Circular No. 81/2013 led to the increase in expenditures for Established Staff and Government Wage Earners.
- Higher budget in 2014 resulted in increased maintenance and operations expenses by 45%. The expenses were incurred for the repair and maintenance of vessels, operational equipment and for purchases of fuel and oil.

The special expenditure incurred relate to consultancy fees for the Job Evaluation Exercise. Funds were vired from SEG 2 based on Cabinet Decision No. 291 of 03/10/2013.

Capital Purchase increased by \$3.7 million or 77%. Two vessels, namely the MV Sigavou and MV Vunilagi, were procured in 2014.

Value Added Tax increased by 177% as a result of proportional to increase in expenditures.

The budget for the Franchise Shipping Scheme was allocated to the Transport Planning Unit under the Ministry of Works and Transport (Head 40), thus the notable decrease in Operating Grants and Transfers for 2014.

**Committee Recommendations and Resolutions:**

The Committee noted that there have been no issues that had been identified for the Government Shipping Services by the Office of the Auditor General.

## **Section 38: Fiji Roads Authority**

### **Role and Responsibilities**

The Fiji Roads Authority is a new corporate entity established in January 2012 to manage all of the roads and public jetties in Fiji comprising of 11,115 km roads (note that the full extent of cane access and farm access roads is not yet fully determined), 936 Bridges (note that the full extent of bridge stock, particularly on cane and farm access roads is yet to be fully determined) and 47 public jetties.

### **PART A: FINANCIAL STATEMENTS**

#### **38.1 Audit Opinion**

The audit of the 2014 financial statement of the Fiji Roads Authority Grant resulted in the issue of an unqualified audit report. However, Management attention was drawn to the matters below.

Part 4 of the grant agreement between the Government of Fiji and the Fiji Roads Authority (FRA) on the transfer, utilization and accountability of the 2014 Operational and Capital Grants requires that FRA to provide the Office of the Prime Minister updated forecasted monthly cash flow requirements for the rest of the year, quarterly reports of detailed statement of expenditure and written summary of the work completed to date. The Office of the Prime Minister was not able to furnish to audit these reports required under Part 4 of the FRA Grant Agreement. These acquittals were later provided to audit after the issue of the audit report.

The audit was carried out on the Grant disbursed from the Office of the Prime Minister and direct payments authorised by the Ministry of Finance to the contractors. The audit of the Fiji Roads Authority is a separate audit.

#### **38.2 Statement of Receipts and Expenditure**

The total expenditure of \$520,590,365 was disbursed in 2014. Total expenditure increased by \$216,120,347 or 71% in 2014 due to the increase in the expenditure for capital grants and transfers.

#### **38.3 Appropriation Statement**

The disbursed grants to FRA and direct payments to FRA contractors totaled \$520,590,365 against the revised budget of \$509,057,981 resulting in over-expenditure of \$11,532,384 or 2%. In 2014, the Cabinet approved the re-deployment of \$35,000,000 from various Ministries and Departments to the Fiji Roads Authority Capital Grant and Transfers. The over-expenditure of \$11,532,384 was incurred on Road projects funded directly by the lender to the contractors after Ministry of Finance approvals.

**Committee Recommendations and Resolutions:**

The Committee noted that there have been no issues that had been identified for Fiji Roads Authority by the Office of the Auditor General

## **CHAPTER 6: Conclusion**

As an observation, PAC notes the limited resources within the Office of the Auditor-General and the Ministry of Economy's Internal Audit Division.

On a positive note, PAC also notes a general trend of improvement across most, if not all Ministries and Departments. However, there are eight general recommendations that most entities need to be aware of, and where necessary, address as a matter of priority.



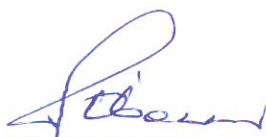
We, the Members of the Standing Committee on Public Accounts agree with the contents of this report:



.....  
**Hon. Ashneel Sudhakar**  
(Chairperson)



.....  
**Hon. Mohammed Dean**  
(Deputy Chairperson)



.....  
**Hon. Alexander O'Connor**  
(Member)



.....  
**Hon. Aseri Radrodro**  
(Member)



.....  
**Hon. Ratu Naiqama Lalabalavu**  
(Member)

