

LAUTOKA CITY COUNCIL

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All communications to be addressed to the CEO



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Your Ref.

Our Ref

October 25, 2017

**The Chairman
Public Accounts Committee
Parliament of Fiji
Government Buildings
SUVA**

Dear Sir,

Re : Anomalies 2012 -2014 Auditor's General's Report for Municipal Council

Reference is made to your letter dated 5th October, 2017 on the subject matter "Appearance before the Public Accounts Committee" and below are the responses for each anomalies noted in the 2014 Auditor – General's Report.

Part A – Financial Information

7.1 Audit Opinion 2012

Issue 1

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

Council's Comments

The Council has adopted Journal Vouchers. The general journal entries are passed for correction of accounts and transfer between accounts. Council has already deployed an accounting software which has been effective from 2014. All Journal entries are passed to this system and system generated journal numbers with supporting documents are filed. These General Journals pass through the check procedures before being posted to the system.

Issue 2

- Un-reconciled variance of \$643,428 exists between the rate debtors' listing and general ledger. Consequently, the Auditor General was unable to satisfy himself if receivable of \$4,550,547 is fairly stated in the financial statements.

Council's Comments

Council has done the reconciliation by verifying each of the 8163 ratepayer's accounts from 1999 to 2013. Council has also developed CMS – Customer Management Software in 2013 – 2014 and fully deployed in 2015 where all the reconciled rates has been captured in Council's books.

Issue 3

- Included in property, plant and equipment [Note 10] are roads, drains and footpaths with written down value of \$45,898,723 as at 31 December, 2012. All Municipal roads have been transferred to the Fiji Roads Authority [FRA] in accordance with FRA Amendment Decree 2012. Consequently, property, plant and equipment are overstated in the financial statements.

Council's Comments

After the promulgation of FRA decree in 2012 the Council continued to maintain roads, drains and footpaths and the understanding was that the asset would be transferred after MOU was signed off. Council has already passed the entries in 2013 and updated the FRA.

Issue 4

- Un- reconciled variance of \$727,745 exists between the PAYE annual summary and the general ledger for salaries and wages. Consequently, the Auditor General was unable to satisfy himself if salaries and wages of \$1,385,533 are correctly stated in the financial statements.

Council's Comments

Wages and Salary Reconciliation has been completed by the Council and adjustments has been passed in 2013 accounts.

Part B – Control Issues

7.4 Roads, drains and footpaths not transferred to FRA

The audit noted from the review of Council's property, plant and equipment that the Council has not transferred the roads, drains and verges to FRA as at 31 December, 2012.

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

Council's Comments

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

Further OAG Comments

Although the MOU was signed in January 2014, the FRA [Amendment] Decree 2012, clearly states that effective from 14 May 2012 all assets, interests, privileges, liabilities and obligation of Municipal Councils in relation to municipal roads shall be immediately transferred to and shall vest in the Authority.

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

Further Council's Comments

Council has adjusted the book and the Fixed Asset Register has been already updated.

7.5 General Journal Entries

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

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

Council's Comments

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

Further OAG Comments

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

Further Council's Comments

The Council has already deployed the Accounting Software, which has been effective from 2014. All Journal entries are passed through this system and system generated journal numbers with supporting documents are filed. These General Journals also pass through the check procedures before being posted to the system.

7.6 Provision for doubtful debts

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

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

Council's Comments

Currently our doubtful debt provision policy is being drafted based on debtors aging report which will be tabled to the Council for adoption as policy which shall than be the basis for our calculations of provision for doubtful debts.

7.7 Increases in Rate Debtors

The review of the rates debtors noted that it have significantly increased by 7.5% during the financial year. At the end of the financial year 201, the Council has a significant amount of rates in arrears.

The significant outstanding rates show that the current collection strategy being by the Council may not be effective. If immediate steps are not taken to recover the arrears, it is possible that these may become irrecoverable and the Council may end up writing off substantial amount of debts.

Council's Comments

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

Further Council's Comments

Council has formed a call center whereby list of defaulting ratepayers were called after hours to make arrangements for payments and site visits were also been carried out.

7.8 Debtors with significant balance

It was noted that details of rates debtors balance with significant outstanding balance are properties of un-developed land but rates are charged as the properties are within City Boundary. The debts may not be recovered by the Council. This increases the risk of rates debtors balance being over-stated by the rate charged by the Council to the un-developed land.

Council's comments

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

Further OAG Comments

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

Further Council's Comments

Council has managed to recover substantial dues highlighted by respective Office of Auditor General.

7.9 Variance between general ledger and debtors listing

The Council did not prepare any reconciliation of receivables during the financial year. Furthermore, audit found out that the rate debtors amount in the rate debtors listing did not agree with the amount in the general ledger.

Council's comments

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

Further Council's Comments

Proper reconciliation has been completed by Council in 2014 Financials.

7.10 Accumulated Leave

The audit noted that the Council staff had excessive leave balances as at 31 December, 2012. The audit is of the view that such a significant amount of leave balance has arisen due to the poor leave administration which allowed staffs to accumulate their leave balance.

Audit further noted that the Council paid leave compensation to some of the officers upon resignation.

Council's Comments

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

7.11 Re-financing of interest bearings borrowings

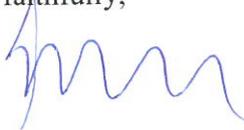
The audit noted that the Council failed to seek approval from the Minister for Local Government, Housing and Urban Development for refinancing of loan accounts. Without obtaining Ministers approval, the Council is seen to breach the requirements of section 41 of the Local Government Act.

Council's Comments

The above has been reported to the Minister during the Minister's forum in 2012 however, this was the transfer of loan from Westpac Bank to Bank of South Pacific due to huge reduction in interest rate provided by BSP and a substantial saving for Council.

Respectfully submitted for your perusal.

Yours faithfully,

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke, representing Jone Q. Nakauvadra.

[JONE Q. NAKAUVADRA]
CHIEF EXECUTIVE OFFICER

cc. Manager Finance, Administration & HR