

2014 Whole of Government

8011

Audit of 2014 Accounts

1. The Audit report identifies the skills and capacity of personnel within Accounts and Finance departments as an inherent problem across all agencies. They indicate this problem is compounded by the Ministry of Economy accepting incorrect reconciliations from various ministries and departments, meaning variance accumulate and remain unresolved (page 2, Vol. 1).

Firstly, does the Ministry accept this statement from the Auditor-General regarding the **Ministry's laxness in accepting incorrect accounts from some departments?**

The Ministry does not accept the statement that we were accepting the incorrect reconciliations.

Secondly, **why does the Ministry accept accounts that are wrong?**

The FMIS did not expect that reconciliations submitted by respective Ministry / department via their Permanent Secretaries (who sign on the reconciliations as the Responsible Head of the Ministry) to have fundamental issues. Unfortunately, the reliance placed was not present.

Further, the Ministry had challenges in reviewing the reconciliations that was submitted. The Ministry receives **1,623** different reconciliations on a monthly basis from respective Ministry / department (Appendix 1 refers). We have 5 officers dedicated for the reviewing of these reconciliations. This, on average, means that an officer in FMIS has to review 325 reconciliations on a monthly basis.

And thirdly, **what systems and procedures is the Ministry putting in place to ensure this standard is lifted for the future?**

- **Checklist for Review of Reconciliations**

We are in the process of developing a checklist for the desk officers to review the reconciliations that are submitted by the respective Ministry / department. This checklist will be shared with the respective Ministry / department as well (**self-review**)

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to ensure that they comply with the basics of performing the reconciliations prior to sending this to Ministry of Economy.

- **Presentation to the Permanent Secretaries**

A presentation is planned to be made to all the Permanent Secretaries on the state of their Ministry / department Accounts and Finances and its impact on the Whole of Government Finances.

- **Quarterly Assessment Report on Ministry / department Accounts – Permanent Secretaries**

A quarterly assessment report will be forwarded to the Permanent Secretaries of respective Ministry / department on the status of their reconciliations. This is in addition to the monthly follow-ups that we do with the Heads of Accounts of respective Ministry / department.

- **IAGG Review and Reporting**

Improper Transactions (financial mismanagement) noted through the review of the reconciliations have been and will continue to be forwarded to IAGG for their investigations.

Further, status of reconciliations is provided to the IAGG for their current internal audits.

- **Standard Operating Procedures – FMIS Reconciliation**

We intend to document these processes in the Ministry of Economy's standard operating procedures to ensure fundamental reconciliation issues are addressed and regularly monitored.

- **Dedicated Unit**

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To implement the above, the Ministry will set up a team to ensure consistent evaluation and monitoring of these fundamental and important accounting anomalies.

2. On page 2 of Volume 1, the Auditor-General states the following: "Most of the results and matters arising from my audits have been reported in the past and it would be prudent for respective heads of ministries/departments to take ownership in addressing recurring issues".

This quote aligns with what the Auditor-General said in their report two years earlier, where he stated, "some of the matters raised have been reported in the past but very little improvement was noted or in some instances, no action was taken by respective ministries and departments".

In light of these strong, and somewhat frustrated quotes from the independent Auditor-General, **why is the Ministry of Economy allowing repeated failure as the standard of reporting across Ministries and Departments, and when are we going to see action from the Ministry to lift the standard for a better Fiji?**

The Ministry of Economy is concerned with recurring issues over the years as these affect the Whole of Government Financial Statements with some issues that date 15 years or so in time. These are basic issues that the Ministry of Economy addresses in every Accounting Heads Meeting for Accounting Heads to be vigilant on and to rectify on. **Appendix 2 refers.**

While the Ministry would like to resolve all issues, some issues need practical recommendations and solutions to have these resolved, especially, where the accounts have a backlog of reconciliations.

The Ministry of Economy would like to highlight that the 2015 Whole of Government accounts have been **unqualified** and same was for the financial year ended 31 July 2016. Prior to this, the accounts were qualified on a number of issues. So from an oversight perspective, progress is being noted and work will continue to address these issues.

MoE has designed a new reconciliation template and has improved monitoring and analysis in order to eliminate or reduce the repeat issues that have been highlighted.

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The Ministry has worked closely with ministries and departments in their capacity building to improve reconciliations and have signed a handing-over statement which now gives the responsibilities to the respective departments to take ownership of their own reconciliations.

The Ministry of Economy will continue in its **over-sight role** to assist Ministry / departments in resolving the repeated issues, however emphasize that it is the responsibility of the respective Permanent Secretaries to resolve the audit findings raised. This responsibility has been confirmed by the Solicitor General. Paragraph 4 of the **Appendix 3** refers.

A number of Ministry / departments have since improved their accounting personnel with appointments of a Director Finance & Administration to ensure that accounting and administration processes and procedures are up to par. While these capacity improvements are being made, it will take some time for the impact to materialize.

As discussed in the overview, the Ministry of Economy will also be profiling respective Ministry / department in the coming months to assess the audit issues raised, the recommendations made and work with the Permanent Secretaries to address the issues. A plan with timelines to improve the issues raised will developed also to monitor the progress.

3. Can the Ministry of Economy provide an update on how many of the 38 Ministries and Departments produced an annual report in 2014?

Ministry of Economy does not have an oversight role in respect of tabling of annual reports. **Appendix 4** refers.

4. Can the Ministry of Economy provide assurance to the Public Accounts Committee that all financial statements from all 38 Ministries and Departments were presented to the Ministry of Economy in accordance with the Financial Management Act 2004? If not, why not?

Under the Financial Management Act 2004, Ministries and Departments are required to submit the financial statements to the Office of the Auditor General for the audit of the accounts and not to the Ministry of Economy.

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For the year 2014, the report of the Auditor General confirms that 38 Ministry / department financial statements were prepared in accordance with the Financial Management Act 2004 and the Finance Instructions 2010 (Page 1 of the Foreword of the Auditor General) titled, *Audit Opinion on respective Ministry / department financial statements* refers.

5. In light of FICAC in 2015 identifying ongoing discrepancies within the Financial Management Information System [FMIS] as a potential corruption threat, can the Ministry provide an update on how the Ministry is strengthening the use of FMIS, in particular, whether it is now capturing all the revenue and expenditure activities of all-of-Government?

Update to strengthen the use of FMIS

FMIS was implemented across the Central Government in 2005. All Ministries / departments utilize FMIS for the financial processing of transactions and in preparing their annual financial statements.

Refresher trainings are carried out twice yearly for users. FMIS User Group meetings are held on a monthly basis to identify and address challenges faced by respective users in Ministry / department. As the Accounting Heads have now become familiar with the system, this separate user group meeting is now merged with the Accounting Heads forum that is held monthly. **Appendix 5** refers of the training plans and the minutes of the Accounting Heads addressing issues related to FMIS.

The system is now almost 12 years old and the Ministry is reviewing the FMIS and its ability to continue to provide for the future financial needs of Government.

Capturing all the revenue and expenditure activities of all-of-Government

Finance Instructions 2010, provides for the Accounting Heads to ensure that expenditure [section 13 and 14] and revenue [section 21(1)(a)] are facilitated and recorded in the FMIS.

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As far as Ministry of Economy is concerned and as the responsible Ministry for the compilation of Whole of Government financial statements, **all revenue and expenditures as approved in the annual budget** are recorded through the FMIS.

The internal audit of the FMIS systems has been undertaken and issues such as transactions of revenue and expenditure not being recorded in the FMIS has not been raised.

Similarly, the Office of the Auditor General had undertaken the audit of FMIS. Instances of budgeted revenue and expenditure transactions not been recorded has not been highlighted apart from the following:

There were three issues across Government although related to Trust Fund Accounts not been recorded on the FMIS.

RFMF Engineers Project Account

The project account was mainly for capital works received from respective Ministry / department. The account has been reconciled and have now been recorded on the FMIS from 2017. **Refer to Appendix 6** for general ledger balances recorded. The trust account is maintained under FMA 2004 and FI 2010 with a trust charter developed.

Official Receiver Bankruptcy and Liquidation Trust Fund Account

The trust fund account has been recorded on the FMIS general ledger and is maintained under the FMA 2004 and the FI 2010. The Ministry is in the process of developing the trust fund guidelines to detail out its management. Refer to **Appendix 7** for the general ledger balances recorded.

Public Service Commission Trust Fund Account

The Trust Fund Account held performance bond from the contractors doing maintenance work on Government quarters (Office Accommodation). The account is now recorded on the FMIS general ledger. Appendix 8 refers.

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6. Following ongoing problems over previous years with Trust Fund Accounting across most agencies, can the Ministry of Economy provide a report on trust fund accounting across agencies, including the problems as identified by the Ministry of Economy themselves, as well as strategies to keep strengthening accounting standards?

Trust Fund Accounting

The accounting of trust fund accounts (main trusts) are maintained in accordance with the Financial Management Act 2004, Finance Instructions 2010, Part 9, section 58 and the Finance Manual of respective Ministry / department.

The trust account monies are kept in a separate bank account and is only opened with the prior approval of the Chief Accountant.

Monthly management reports are prepared reconciling the trust fund cash at bank account with the liabilities held in trust. The names and balances held in trust (listing) are prepared and required to be signed off by the Permanent Secretaries as the Responsible Authority of the Ministry / department.

A statement of receipts and payments are prepared at year end and is part of the audited annual financial statements.

Receipting and Payments follow through the normal processing of transactions and its recording in the FMIS system. A cashbook is maintained accordingly of transactions processed.

Issues / Concerns with Trust Fund Account and strategies to address the Issue

Issue	Strategies
Main Trust account not supported with the cash at bank	Ministry of Economy is liaising with the respective Ministry / department and will have the issues addressed by July 2018. [OPM – Sports Fund and Sale of books – biography]
Reconciliation not prepared dating to 1993	Ministry of Economy has advised the Department of Judicial to commence with the current reconciliations (receipts and payments) and work back. Timelines are being worked to update these reconciliations.
Listing of Trust balances held not available	Ministry of Economy will be profiling these entities and will be meeting the Permanent Secretaries in regard to this with other accounting / audit anomalies.

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Issue	Strategies

Operating Trust Fund Account

Operating Trust Fund Accounts include the following:

These are creditor payments held in trust from the direct deduction of employee salaries and wages such as FNPF, deductions for payment of insurance etc.

- Payroll deductions on behalf of employees
 - PD Revenue Accounts (OPR deductions, water charges, quarter payments etc).
 - PD Insurance
 - PD Loans and Advances
 - PD Direct Credit
 - PD Union and Association
 - PD Maintenance
 - PD Rates
 - PD Rents
 - PD Others
- Tender Deposits
- Retention Payments
- Government Taxes (vat on revenue collected in trust by LTA, TAF and WAF)

The clearance and payment of deductions in operating trust are managed in accordance with the Finance Manual of the Ministry of Economy and that of respective Ministry / department.

Monthly reconciliations are prepared as part of the monthly management reports of respective Ministry / departments.

7. An issue for the Ministry of Economy appearing in all the backdated audit reports to 2007 has been the low rate of student loan recovery. Can the Ministry provide an update on how it is progressing on this issue, and how it is improving the current low success rate?

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The Fiji Government Scholarship Scheme was established in 1978 as a **Cost Sharing Scholarship Loan Scheme** where **two thirds of the cost of tuition** was borne by **Government** and a third by the recipient.

The **Private Student Loan Scheme** was an affirmative action program by the Fiji Government designed to assist disadvantaged families who could not afford to pay for their children's education. The recipient on employment was to **repay the full amount** of loan used on his/her education by remitting periodically from their wages/salary.

The management of the loans scheme was with the then Public Service Commission. In 2016, the loans recovery unit was transferred to the Ministry of Economy. However, proper hand-over was not done, that is, the exact number of recipients, the financial reconciliations and the debt that is yet to be collected.

A task force was set up within the Ministry of Economy to record files with the then Public Service Recovery Unit. Simultaneously, the team continued to remind the recipients to pay up. Also, records were updated as and when payments were received.

From this fiscal year 2017/2018, the Fiji Revenue & Customs Service (FRCS) will take over this role. The FRCS has provided an information template and the task force has completed over 80% of the input of data and categorized data into the **three types (SLS, Cost Sharing and Full scholarships)** of schemes to help FRCS. While proper handing over was not done from PSC to the MoE, we will ensure the transfer of responsibility to FRCS is done well with accurate data. In working with FRCS, we anticipate a higher level of recovery as they have access to TIN information of the scholarship recipients and their guarantors. This will enable them to get a quicker response.

As of to-date, the recoveries of the loans are as follows:

Year (Jan – Dec)	Amount (\$)
2014	2,316,130
2015	1,358,315
2016	851,042

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8. An ongoing issue over the past period has been over-expenditure on salaries, wages and conditions by various Ministries and Departments, particularly the portfolios of RFMF and Police. What actions are the Ministry of Economy taking to address these over-expenditures in future budget cycles?

From the audited financial statements, the portfolio of the Fiji Police Force and that of the Republic of Fiji Military Forces has not been overspent. **Appendix 9** refers - schedule 11 of the 2014 audited financial statements.

We would also like to inform the Honorable Committee that the budget of the Fiji Military Force and the Fiji Police Force has not been overspent from 2012.

9. The Auditor General is unable to satisfy themselves on the existence, rights, completeness, and valuation assertions for the cash at bank balance totaling \$38.9 million as at December 31, 2014. Can the Ministry of Economy respond to this qualification in the 2014 audit report, and outline how they are addressing this matter for future budget cycles?

Outlined below is the trend of errors and omissions over the years and its impact on the financial statements:

Year	Errors & Omissions (\$)	Impact of Financial Statements
2014	18,786,159	Qualified
2015	6,309,592	Unqualified with an Emphasis of Matter
31 Jul 2017 [6 months]	6,768,803	Unqualified with an Emphasis of Matter

The errors and omission have significantly reduced and we are continuing to work with the respective Ministry / departments to eliminate these errors as these relate to basic reconciliation issues.

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10. In the 2014 audit statement, the Auditor-General was unable to satisfy themselves on the completeness, rights, valuation and existence of the accounts receivable balance of \$14.1 million. Can the Ministry of Economy respond to this **qualification from the Auditor-General**, as well as **outline why this statement was made**, and **what strategies the Ministry has in place to address this in future budget cycles?**

The qualification relates to unsubstantiated accounts receivable balances by the Auditor General. Debtors listing was not available to support assignment of these balances.

Ministry / Department	Nature of Receivable		Amt (\$)	Comment
Public Service Commission	560203	AR – Individuals	10,591,153	Balance accumulated from 2008
Ministry of Works (Fund 4)	560000	AR – Trade Debtors	2,114,179	Balance accumulated from 2007 (last record in FMIS) – reversed. Appendix 10 refers.
RFMF	569902/569903	Malaya Pension	772,483	This is reimbursement that the RFMF is complying for reimbursement from the British Government.

Public Service Commission - \$10.59 million

The Public Service Commission had incorrectly utilized SAG 56 for the issue /recovery of PSC student loan scheme. These loan schemes are appropriated yearly under the Lending Fund Account and therefore, the accounting entries should have been reflected accordingly – facilitating payments (cash basis of accounting) through the Lending Fund Account and recording the loans owed (accrual accounting). However, this was not done.

In addition, an internal audit was conducted into these account in year 2015. It was noted that these receivables could not be substantiated and it was difficult to reconcile how the PSC was recording transactions into these accounts. Ministry of Economy did meet the then PSC to resolve the issue which was committed to.

With now the cessation of the Public Service Commission as part of the civil service reform, all loan accounts are now transferred to TELS Board. As per the 2017/2018 budget announcement, the recovery of the outstanding balances (existing loans prior to

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TELSB) relating to the PSC Loans Scheme, the files for the outstanding loan is now been counted and will be transferred to the Fiji Revenue & Customs Authority.

For the Public Service Commission, the receivable should be \$2.1 million as verified to source documents.

11. The Corporate Governance Framework continues to have 10% as a baseline after tax return on shareholders' funds, yet the rate of return for 2014 was 5% improving from 2% in 2013, and now averaging 3% for the five year period. Is the Ministry of Economy comfortable with the 10% baseline continually being unmet? If not, what is the strategy to address this on-going concern?

Background

- The Ministry of Public Enterprises (MPE) is guided by the Public Enterprise Act (1996) and the Corporate Governance Policy Framework (2003). The Government Commercial Companies (GCC's) and Commercial Statutory Authorities (CSA's) are required to promote good corporate governance.
- The corporate objective of GCC's and CSA's is to optimize returns to its shareholders/Government. However, if other factors affect this objective, these should be disclosed are discussed stakeholders.

Issue

- The non-achievement of the baseline 10% rate of return is mainly attributed to key infrastructure entities under Gov't portfolio which are non-commercial in nature (for instance WAF, which is not a charging a cost-plus tariff).

Reforms or Initiatives Undertaken to Address or Improve

The MPE in an effort to maximize the shareholder's return has undertaken a number reforms:

1. Monitoring Framework

A new Monitoring Framework has also been drafted and tested aimed at improving the current monitoring mechanisms being undertaken by the MPE. The key features of the Monitoring Framework include:

- Categorizing entities based on the traffic light system which would reflect entities which would be subjected to intensive monitoring;
- Monitoring mechanisms would include financial and non-financial measures; and

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- Focus would be on planning, reporting and accountability.
- Performance of SOEs is measured through benchmarking with other SOEs in the region.

2. SOE Governance

The MPE also facilitates Directors Training through the ADB which adds value to the decision making of the Directors and ensures that the resolutions undertaken are in the interest of the shareholders.

3. Capacity Building for Staffs

The MPE engages the services of the ADB Consultants to provide training and on-site capacity building for the staffs. This enables the staffs to perform their duties more efficiently and effectively. It also adds value and focus to the monitoring of financial and non-financial performance of the SOEs.

The MPE with the above reforms and initiatives has seen considerable improvements in the financial and non-financial performance of SOEs as highlighted in the table below:

FINANCIAL INDICATORS	2013	2014	2015	2016
ROE	3.96%	3.87%	4.93%	8.63%
DIVIDENDS (Fiscal Yr)	11,913,979	24,785,510	34,289,509	33,769,166

Source: MPE Records – Entity Business Financials

Please also note that Return on Equity is not usually a good indicator of performance especially in case where assets are not valued at Fair value.

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Report of the Auditor General

Volume 1: Audit Report on Whole of Government Financial Statements and Annual Appropriation Statement 2015 (Parliamentary Paper No. 58 of 2017)

- **Audit of 2015 Accounts**

1. In the 2015 audit report, the Auditor-General indicates concern about several Ministries and Departments not complying with section 32(6) of Finance Instructions 2010, which requires that **all bank accounts must be reconciled on a monthly basis**. In response, the Ministry for Economy agrees with the comments, and indicates FMIS is working with several Ministries in resolving anomalies, and that issue should be resolved for the financial year ending Jan-Dec 2016. For the Committee considerations,

Can you confirm whether Ministries and Departments are now fully compliant with the Finance Instruction 2010, and

The Ministries / departments are partially complying with section 32 (6) of the Finance Instructions 2010.

Whether FMIS is working with the Ministries and Departments on compliance issues, and

Yes, the Ministry through its FMIS / Treasury division is working with the respective Ministry / department with regard to the monthly reconciliation issues. We would like to comment that we have progressed from a situation where there were reconciliations not being prepared at all to now, where reconciliations are being done including addressing with the issues that are yet to be rectified to fully comply with the purpose of the monthly reconciliations.

If so, what are they, have they been resolved, and did they meet the Ministry's deadline of December 2016?

With the change in the financial year, this timeline will have to be revised. The Ministry devoted its time and resources to ensure the transition of the new financial year. However, some progress has been made on the issues raised as outlined below.

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No.	Issue	Status	Comments
1.	Variance Overseas bank account reconciliation and the general ledger	Partially Addressed	10 out of 17 bank account balances has been reconciled to the GL as at 31 Jul 2017. This is a result of the revised method of recording transactions as to that done previously.
2.	General Ledger of Ministry of i-Taukei Affairs scholarship recovery bank account has not been adjusted due to its transfer to TELS.	Addressed	The General Ledger account has been adjusted to the Ministry of Economy. Appendix 11 refers.
3.	Variance TMA bank reconciliation and the general ledger	Partially Addressed	Issues remain: Inter-fund recording of transactions Variances identified but not journalized (eg. Direct deposits, bank fees etc).
4.	Variance Trust bank reconciliation and the general ledger	Partially Addressed	Issues remain: Inter-fund recording of transactions Variances identified but no journalized (eg. Direct deposits, bank fees etc).
5.	Trust Fund Accounts not recorded on the FMIS: RFMF Project Engineers Public Service Commission	Addressed	Appendix 6 and 8 refers.

The respective Permanent Secretaries of the Ministries / department are responsible for their accounts, while the Ministry of Economy simultaneously is assisting the respective Ministry / department in resolving these issues.

2. In the Audit report, the Ministry of Economy indicates it has already **TWICE** undertaken **write off of certain bank account imbalances** because it was felt that

the “root cause” for recurring errors was the actual process itself. Can the Ministry explain these concerns in detail to the Committee, including the detail of the concerns about where the problems in the process were believed to exist, and what changes to the process have been implemented as a consequence of these concerns?

The Ministry of Economy met with the Ministry of Foreign Affairs and discussed the issue. Following this, Ministry of Foreign Affairs had reviewed its process and have corrected the issue of recording foreign exchange losses/gains as a result of movement in exchange rates for holding bank accounts in overseas.

The process in error refers to the accounting entries that the Ministry of Foreign Affairs was recording for the transfer of funds to its missions overseas for its daily operations. The current Finance Manual has been revised on the accounting entries to be made to record the transactions that became effective 1 August 2016.

3. If TWO write-offs have been performed, and the Ministry has bought in a new process to avoid imbalances, why are there still variations that appear in 2015 audit report? Which department, Ministry or person, is not listening or participating in the reform process? Why, in particular, are foreign missions, seeming to appear as repeat offenders in this regard?

The 2014 audit was conducted in year 2015, tabled in September 2015 highlighting the issue. The 2015 accounts continued to be processed under the old accounting entries. The process was reviewed and the new process became effective 1 August 2016.

As of 31 July 2017 (un-audited), a total of 10 of the 17 overseas mission bank accounts have been reconciled with the general ledger. The Ministry of Economy will be discussing further on the remaining mission bank accounts to ensure that all (7 remaining) mission overseas bank accounts are reconciled. **Appendix 12** refers.

4. Can you provide the PAC with an update on the **valuation of the Fiji Broadcasting Corporation Ltd?** In particular, since the 2015 audit report, have FBC and the Ministry updated the records of government investments accordingly, so the valuation no longer stated what looks to be an artificial figure of \$2.00?

The Ministry of Economy has received the share certificate for \$200,000 from FBCL and has updated its investment records accordingly. **Appendix 13** refers.

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5. Can the Ministry of Economy provide **an update on the write-offs done mostly on balances that were long outstanding in various Ministry trust accounts?** The Audit office indicates a concern about genuine deductions from civil servants paid to respective authorities on a timely basis, yet the Ministry seems to indicate that “we have never received any complaints of any deductions made that were not remitted to the institution”. **There seems to be a difference of opinion between the Audit Office and the Ministry? Has this been resolved?**

For the year 2015, these reversal of balances relate to payroll deductions held in trust on behalf of the employees.

Tabulated below is the reversal of balances made in year 2015 and the year since when the account held these balances without any movement in the account.

Account	Ministry / Department	Description	Account Brought forward From	Amount (\$)
1-02101-02999-861511	Office of the Prime Minister	301 PD FPS CREDIT UNION	2011	155.00
1-02101-02999-861537		CARPENTERS FINANCE FIJI LTD	2014	163.55
1-02101-02999-861902		204 PD DEPST A/C RECOVERABLE	2014	2.41
1-02101-02999-861915		400 PD FINES & TREASURY	2014	70.00
1-02101-02999-861924		MPAISA	2013	420.00
1-02104-02999-861204		244 PD-LICI	2013	.01
1-02104-02999-861904		333 PD SDL	2013	30.25
1-12101-12101-861901	Parliament	201 PD TAX ARREARS / PAYE	2011	1,710.00
1-12101-12101-861920	Parliament	501 P D EMPLOYEES FNPF	2011	2,717.92
9-32301-78068-860101	Fisheries and Forests	PROJ DEVELOPMENT FUND	2011	15,310.00
Total				20,579.14

The approach taken to reverse the accounts was discussed with the Office of the Auditor General and was agreed on in “principle” to rectify the accounts. **Refer to Appendix 14.**

Our fortnightly payments of deductions made on behalf employees have been regular. These are creditor payments for the employees and failure to receive any payment on behalf of the employees, the creditors will commence follow-up with the employees

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and the Ministry. Thus, these creditors keep a check on us for their payments deducted in trust on behalf of the employees to be timely.

The fact, that these balances had been held in the account, yet we did not receive any claims of non-payment is an indication itself that it is a mere balance held for which there is no claims.

Further, these adjustment of the balances are recorded in our equity account and is always available to revert for any claim of payment not been honored. The onus, however, will be on the employee and their respective creditor to prove that the deductions made was not remitted accordingly.

We would like to request, similarly, with the Office of the Auditor General, to provide the employee details whose accounts have not been paid and we can check these with our records.

6. The 2015 Audit report recommends stringent measures should be enforced on Ministries and Departments, to ensure that **accurate revenue amounts are reflected at a Whole of Government level**. In the Ministry of Economy response, they seem to accept this recommendation, and even indicate they have begun addressing this issue. **Can you provide an update on whether this has been addressed and resolved, and could the Audit Office confirm whether they agree with this advice?**

The issue was raised in relation to RFMF Engineers Project Fund Account (the "account") that was not recorded in the FMIS general ledger.

The following has been done in respect of the account:

- The FMIS general ledger in trust – cash at bank (SAG 52) and liability account (SLG 89) has been opened,
- Separate bank account with the bank exists;
- Authority to operate a trust account has been provided on 19th of May 2017;
- The account charter and guidelines have been developed;
- Managed in accordance with the Financial Management Act 2004 and the Finance Instructions 2010.

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- The account is maintained for RFMF engineers to undertake construction works for community centered projects funded by the Government Ministries / departments, non-government organizations and Community self-help programs.
- The 31 July 2017 financial statements of the Republic of Fiji Military Forces will include a statement of receipts and payments as part of the annual financial statements and monthly account reconciliations are being performed as any other trust account. **Appendix 6 refers.**

7. In the 2015 audit, the Audit Office expressed concern about **debt recovery strategies** for Ministries and Departments. They recommended a review of these to ensure that all avenues to recover debts are exhausted and irrecoverable debts are reduced. This is also an issue the PAC has made recommendations on in previous PAC reports to Parliament, as there looks to be a problem with debt recovery over a long period of time for a number of Ministries. This obviously affects the overall budget position of the Government. Can the Ministry **provide an update on current strategies**, and **which Ministries and Departments are particularly affected by issues in relation to the debt recovery strategy issue?**

The Arrears Taskforce that is spearheaded by the Ministry of Economy monitors the arrears of revenue by way of ensuring **quarterly reports** are submitted on time and Agencies implement recovery mechanism that is workable and effective. In addition, MOE meets with agencies to verify the status of arrears, recovery tools and reconciliation of accounts are undertaken on quarterly basis.

Ministry and Departments usually send their middle managers to be part of this Taskforce; most of the issues and challenges they encounter are discussed and a solution is proposed for each Agency to consider. The responsibility is for the Permanent Secretary is to ensure the reduction of arrears on annual basis.

A strategy to reduce arrears is to write off irrecoverable debt aging more than 5 years. The agency submits requests to MOE and this is submitted to the Minister and Cabinet for their approval to write off. This option is exercised when all avenues for recovery have been exhausted.

Other strategies to be considered include:

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- sharing information and resources amongst government agencies to identify and locate customers;
- implementation of an amnesty;
- Increasing resources to assist in recovery.

The agencies that have significant revenue in arrears include FRCA, WAF, Ministry of Lands & Mineral Resources, Judiciary and TAF (94% of the revenue in arrears) as outlined below (31 Jul 2017 – unaudited).

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3 months	24,699,372		4,795,994			29,495,366	15
6 months	3,005,235		361,733			3,366,968	2
9 months	8,461,140	5,836,672	3,814,288		2,172,314	20,284,414	11
1 year	58,046,103	5,861,427	3,679,397	1,075,186	4,408,141	73,070,253	38
2-5 years	11,626,072	7,997,731	5,282,259	2,791,093	1,019,326	28,716,481	15
Over 5 Years	9,160,576	13,310,811	3,886,959	9,584,412	---	35,942,759	19
Total	114,998,498	33,006,641	21,820,630	13,450,691	7,599,781	190,876,241	
%age of Total Arrears	60%	7%	12%	17%	4%	98%	
Type of Arrears	Taxes – PAYE VAT Customs	Water Charges	Crown Land Rentals	Court Fees and Fines	Telecom License		
Recovery Measures	As per TAD 2010 - Demand Letters - Time to Pay Arrangements - Field Visits - Garnishee Orders - Departure Prohibition Order - Arrival Alerts - Charge on TP Property (DMU Unit)	- Discuss with debtor on payment - Time to Pay Arrangement - Disconnection - Dispute (clear debt) while dispute is investigated (credit to be passed if dispute is valid)	- Data cleansing is being undertaken - Dual Accounts - Inactive Leases	- Court Fine to be paid within 14-21 days. – Issue of Warrants (Court fees and costs added). - Recovery is being executed through the Fiji Police department & Fine Establishment Unit.	- Reminder Letters issued. - Follow-up emails - Face to face meetings		

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Age of Arrears	FRCS	WAF	Ministry of Lands & Mineral Resources	Judiciary	TAF	Total	%age
	<ul style="list-style-type: none"> -Encourage Taxpayers to utilise Amnesty for debts owing as at 30 June 2017. Management oversight on all cases above \$100,000. 						
Challenges	<ul style="list-style-type: none"> - Huge Assessments Versus Collectability - TP right of object - Economic and Social implications - Ignorant TPs in meeting timely tax obligations. 	<ul style="list-style-type: none"> - Faulty meters to be replaced (avoid estimate in bills) - Proper Identification details of customers in system for follow-ups - Lease agreement with landowners (water sources) – lease payments and landowners pay for water usage. - Inherited arrears from the previous Water Supply Department (lack documentation to follow-up on arrears) - Re-located customers - Illegal connections - Legal actions impractical on low income customers - Informal land settlements 	<ul style="list-style-type: none"> - Resource issue addressed: Lease arrears taskforce (\$200K) for the last 2 years. 	<ul style="list-style-type: none"> - Resources (vehicles) to serve warrants - Inability to locate people to serve warrants for collections. 	Financial Instability of operators		

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Age of Arrears	FRCS	WAF	Ministry of Lands & Mineral Resources	Judiciary	TAF	Total	%age
		- Businesses liquidated	owing				
Strategy	Ministry of Economy will be discussing with these entities in further addressing these challenges and debts that are now over 5 years (Limitations Act). Assessment of collections through the Small Claims Tribunal will be pursue. Further advice of the Office of the Solicitor General will be sought for debts over 5 years and where recovery avenues have been exhausted.						

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The revenue in arrears over 5 years have improved from \$37.5 million in year 2015 (25%) to \$26.8 million (15%). The entities that have made improvement in the collection of their debt include the Ministry of Lands & Mineral Resources and Judiciary.

8. Has the Ministry of Economy provided any provision of doubtful debts into the accounts as a matter of prudence in the financial reporting of government funds: if so, can you please provide details of what is now being declared by which Departments as doubtful debts? And if not, why hasn't this been done as per the Audit Office recommendation?

It is important to note that provision of doubtful and bad debts is not required under cash basis of accounting. We can provide for the disclosure as the "notes" to the financial statements where debts are doubtful. Ministry of Economy nonetheless, have developed a policy in relation to doubtful and bad debts to provide for this disclosure consistently of debts owed across Government. Appendix 19 refers.

To reflect debts that are "doubtful", the age of the debt is prepared on a quarterly basis to monitor its recoverability and that that may be doubtful (over 5 years old).

9. This question is asked to make a point, but does the Ministry think the weather conditions are more adverse in Fiji than in other countries: and does the Ministry think Fiji is more prone to price variations than other countries? These questions have been asked to test your response to the 2015 audit recommendation on **how capital projects are delivered** in Fiji.

Your response to the Audit office finding regarding problems with capital expenditure was responded to by the Ministry in a somewhat defensive way, arguing price and weather need to be taken into account.

The question is therefore to ask the obvious of **why weather and price aren't already taken into account when shaping the budgets**, rather than being used as a defense against an adverse Audit finding?

- Budget is a forecast of expectations of situations forecasted at that particular time.

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- Below is the trend on the utilization of capital budgets from year 2014 to 31 Jul 2016:

Year	Revised Budget	Actual Expenditure	%age Utilized
2014	1,013,492,900	930,115,814	92
2015	1,321,877,400	1,045,016,389	79
2016 [7 months]	1,330,033,790 [665,016,895]	590,688,998	89

- The Public Expenditure and Financial Accountability (PEFA) provides for a budget reliability of 5% variance (giving a score of "A") and a 10% variance (giving a score of "B").

Uncontrollable factors are addressed through contingency provision which takes into account price and weather conditions.

10. Does the Ministry support the Audit finding that **capacity development for capital project management** should be supported across Ministries and Departments? If so, what has been done about it in the past two years?

Since December 2016, the Ministry of Economy has introduced a Central Coordinating unit to deal with its Capital projects apart from Fiji Roads Authority and Water Authority of Fiji.

11. Does the Ministry agree that **engagement of appropriate capital project expertise** should be considered? If so, what has been done about it in the past two years?

We agree that the engagement of appropriate capital project expertise should be considered, and has been implemented since the inception of the Construction Implementation Unit based at Ministry of Economy beginning year 2016.

12. Does the Ministry agree that operating budgets across Ministries and Departments should be reviewed for any over-budgeting? If so, what has been done about it in the past two years?

The review of expenditures is done yearly before the preparation of a new budget. All Ministries/ departments are issued a baseline budget which contains the minimum

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expenditure based on utilization rates by Ministries/Departments. The Ministries then review proposals and may make submissions for increase or decrease in request based on their projections. Expenditure estimates which goes through various consultation processes before the proposal is approved.

Tabulated below is the utilization of the operating budget for the years 2014 and 2015:

Year	Revised Budget	Actual Expenditure	%age Utilized
2014	1,525,474,167	1,471,275,463	96%
2015	1,660,749,420	1,585,800,762	95%

13. Does the Ministry have confidence in the training, up-skilling, and capacity building being done by the Fiji Procurement Office in light of the fact that the Audit Office has been identifying problems areas? If the Ministry can't satisfy itself on the **Fiji Procurement Office's trainings**, what has the Ministry done about it in the past two years?

The training conducted by the Fiji Procurement Office focuses primarily on the procurement process particularly the adherence to the legislative requirement governing the procurement process. This includes calling for tenders when value of procurement exceeds the \$50,000 threshold, the procedures of tender from advertisement to awarding, the need of contract vetting and duly execution of contract before the commencement of projects, and others. The training emphasizes on the importance of planning given that allocations for procurement of goods and services are known once budget is announced but we note that the trend of Agencies rushing in with requests for tender or requests for tender board approval towards the end of financial year continues. We are of the view that no amount of training will be able to rectify the rush to utilize unspent budget allocation towards the end of the year and Agencies themselves need to improve on this area.

14. Does the Ministry agree with the Audit Office 2015 finding that proper approval should be obtained for redeployment of funds to meet any shortfall in appropriations? If so, what has the Ministry done about rectifying this issue in the past two years?

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Every redeployment exercise needs the approval of Cabinet before we execute the transfer of funding from one Head of Appropriation to another Head of Appropriation. After assessment of the expenditure risks, a Cabinet paper is always prepared requesting Cabinet approval to consider the redeployment request given the urgency to implement major unbudgeted commitments which are prioritized by Government. Without the Cabinet Approval, no Redeployment of Funds will take place in line with the FMA Act.

The over expenditure in Seg. 1 for the Ministry of Education was due to the payment of allowances such as the location allowance. As per the General Orders, it is Ministry's commitment to pay the location allowance and the budget given for location allowance for 2015 was not sufficient to cater for all the allowances as per the actual number of teachers posted to remote and very remote schools. This was rectified through the 2016 budgetary process.

The Over expenditure in Seg. 2 related to hiring of casuals that were not budgeted for to cater for printing of text books and assisting in Examination expenses as this were Ministries Initiative that were not budgeted for.

The over-expenditure could have been regularized from the savings from other expenditure allocations, however, the Ministry of Education did not request for such.

15. Has the Ministry followed the Audit Office recommendation to put stringent measures in place to restrict unauthorized utilization of funds throughout the system? If so, please provide details. If not, why not?

The FMIS system for non-payroll expenditures are already under Fund Accounting.

The payment of salaries is done in the payroll system and not in FMIS. The FMIS is updated only with actuals after payment is done at the end of each pay period. Currently, our payroll system is not under fund accounting. This will be a feature in the software that will be looked into as we are currently reviewing our payroll system with the intent to have a new payroll system.

16. Have all Ministries and Departments, especially those with operating TMAs, now developed policies for bad debts and built 'doubtful debt policies' for control of

amounts applied for write offs? If so, could you provide details of how this has progressed across Ministries/Departments over the past two years?

The accounting treatment for bad debts and write offs is included in the Policies on Financial Assets and Fund Accounting which was finalized in June 2017. Circulation and awareness of the new policy will be undertaken by the Financial Policy Advisory Unit in the 2017-2018 financial year. The policy has been developed by the Ministry of Economy for all Ministries and Department to ensure that the accounting treatment for bad debts and doubtful debts is consistent across whole of government. **Appendix 19 refers.**

17. The Audit Office was concerned in their report about unsubstantiated balances write offs, and recommended the Ministry of Economy should take appropriate action to resolve the highlighted issue at the accounting heads forum. However, it is noted the Ministry in their response expressed frustration and even used the language, *"Ministry of Economy cannot really do anything to assist"*. This is an unusually weak response from a central agency. Can the Ministry and Audit Office clarify whether they have resolved this issue in a more systemic way, and if so, provide details of what has been achieved in the subsequent two years?

The Ministry of Economy (MoE) would like to highlight the following:

- The accounting heads in the respective Ministry / departments do not report to MoE.
- The Accounting Heads report to their Permanent Secretaries who are the responsible authority of their Ministries.
- The MoE has and will continue to assist respective Ministry / department in addressing accounting anomalies.
- Further, the status of accounts of respective Ministry / department and common accounting / audit anomalies are discussed at the Accounting Heads Meetings.
- The reversal of long outstanding balances had been facilitated by the MoE in 2015 with various follow-ups. The onus is on respective Ministry / department to revert on assistance of the MoE.
- The balances raised in the audit report total of \$28,343. Since the Ministry / department did not respond in year 2015, these were not facilitated noting the immaterial nature of the account balance.
- The balance in these accounts as at 31 July 2017 (*un-audited*) is:

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Allocation	Description	Balance as at 31 December 2015	Balance as at 31st July 2017
1-40104-40491-840602	WITHHOLDING TAX PAYABLE	(27,263)	-
1-18101-68999-840602	WITHHOLDING TAX PAYABLE	(14,225)	-
1-19101-19999-840602	WITHHOLDING TAX PAYABLE	249	-
1-20101-20999-840602	WITHHOLDING TAX PAYABLE	11,391	16,106.07
1-21101-91019-840203	AP NT-INDIVIDUALS	1,505	-

18. The Audit Office recommended the Ministry of Economy should expedite **clear accounting policies, valuation methods, and write off policies that can provide accurate information on the value of inventory at any given time**. As well, they recommended Ministries should disclose on the financial statement the valuation methods and accounting policies adopted for accountability and transparency purposes and for the benefit of users of the financial statements. Has this happened, and if so, can you provide details of how this has been implemented over the past two years?

- Inventories are held mainly in respect of the Trading and Manufacturing Activities (TMA) operated by respective Ministry / departments.
- The TMA financial statements of respective Ministry / department are prepared as far as possible on accrual accounting and that required under the Finance Instructions 2010, section 71 (1) (2).
- Inventory valuation is provided for under section 39(1) of the Finance Instructions 2010 – lower of cost or net reliable value. This fact is adequately disclosed in the management certificate on annual basis that the financial statements have been prepared in accordance with the Finance Instructions 2010 for every class of balance reflected.
- The Audit Report has erred in quoting IPSAS 12 which is an accrual IPSAS. The current accounts of Government (Whole of the Government Finance Statements) are

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prepared in accordance with cash-based IPSAS (from year 2015) and the Financial Management Act 2004.

- The respective Ministry / department accounts are prepared in accordance with the Financial Management Act 2004 and the Finance Instructions 2010.
- The non-financial assets policy has just been endorsed by PS Economy and the policy includes the definition of inventory, point of recognition of inventory, basis of measurement of inventory and the reporting of inventory at reporting date in accordance with FI 2010. **Appendix 20** refers.
- Additionally, there may need to be an awareness at whole of government level on the types and methods of inventory valuation which needs to be disclosed. This has never happened in the past and will be a new initiative for government considering that we will need to train and build capacity of accounts staff in how to value and report inventory.

19. Has the **inventory management system** been adopted, and is so, can you please provide details of its implementation over the past two years? If it hasn't, can you explain why not?

The MOE with the assistance of development partner is in the process of assessing whether the existing FMIS system needs to be upgraded or replaced. The inventory management system is one of the key modules that will be considered either with a systems upgrade or in the replacement.

In addition, the purpose for the operation of TMAs is now under review to see if this is needed or has "out-lived" its intended purpose before we make the decision to get the inventory module. Refer to **Appendix 15**.

20. Has the Ministry of Economy liaised with the Fiji Institute of Accountant on governments plan to **adopt IPSAS**, and if so, what are the consequences of these discussions?

The adoption of cash based IPSAS was endorsed by the cabinet decision CP (10) 222 on 20th July, 2010. **Appendix 16** refers. As per the advice of the Office of the Solicitor General, the following refers:

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- The Fiji Institute of Accountants (FIA) Act 1971 and the FIA Accountants Rules 1998, does not have any requirement for the FIA to be consulted on the adoption of IPSAS and similarly, for the FIA to give any endorsement for the adoption of IPSAS.
- Financial Management Act (FMA) 2004 encourages that financial statements be prepared in accordance with internationally accepted accounting standards and policies. The adoption of IPSAS is thus, in compliance with the FMA 2004.

The advice of the Office of the Solicitor General is annexed at 3, paragraph 6 – 8 refers.

21. Has the Ministry agreed that **the FMIS system be closed** for any further entries while the Agency Financial Statements are submitted for audit? Is this now common practice? If not, why not?

We do not permit accounting entries to be recorded after the submission of Financial Statements to audit. For the last financial year, we had worked with the respective Ministry / departments to ensure that balance day adjustments are properly carried out. Should anomalies be identified after the draft accounts are submitted to OAG, then adjustments will only be made in consultation with the Audit Office.

22. As the Public Accounts Committee recommended several years ago, is it now accepted practice that the performance measurement of Heads of Ministries and Department should also include the timely submission of annual reports inclusive of the audited Agency Financial Statements. If agreed, is this now being implemented, and is it making a difference to the submission of annual reports? If this is not agreed to, why not? What is the problem with this seemingly sensible idea from the Audit office?

Yes we do agree to this. Ministry of Economy has been liaising with the Accounting Heads to table a complete Annual Report to Parliament. This also forms part of the criteria of performance assessment for Permanent Secretaries

23. Are all Ministries and Departments now properly reconciling on a monthly basis with FMIS? If not, why not?

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Ministry / departments have improved in reconciliation from what was the status back in for the financial year 2014. Continuous reminders are sent to Accounting Heads and also memorandums to the respective Permanent Secretaries of those ministries that do not submitting their reconciliations on time.

We have improved coordination in this area over the years and the Ministry of Economy will continually strive to help the respective Ministry/departments improve via our over-sight role.

24. Do you agree with the Audit recommendation to the Ministry of Economy that they should investigate and rectify the total variance of \$297,294 as at 31/12/2015 so that correct balances are reflected at year end in the Drawings Account? Have you, or will you assist this happening?

MoE had already identified the reasons for these variances in the 2015 December drawings reconciliation and these were highlighted to respective ministries.

Ministry of Fisheries and Forests [Variance of \$216,033 between the bank reconciliation and general ledger]

The Ministry accidentally voided the cheque in the system, returning the allocated funds into to the expenditure. However, the cheque was presented in the bank. By the time this was realized, funds was not available in the expenditure allocation to post the expenditure. Virement could have been done to regularize this, however, the Ministry of Fisheries and Forests did not approach this course of action to record these in the general ledger. **Appendix 17 refers.**

Meteorological Services [Variance of \$66,372 between the bank reconciliation and general ledger]

The bank incorrectly debited EFT payments to the Meteorological Services drawings account. This was later rectified by the bank in year 2016. **Appendix 18 refers.**

Way forward – ministries are encouraged to perform reconciliations on a monthly basis so that pending charges are identified and regularized on a timely basis.

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25. Do you agree with the Audit recommendation that the Ministry of Economy should closely monitor month end drawings reconciliation, and ensure that agencies appropriately address errors and discrepancies in their monthly reconciliations before the next reconciliations are due? Have you agreed to assist the Ministry with this process?

As per the advice of the Office of the Solicitor General, paragraph 4, the Permanent Secretaries of respective Ministry / department are responsible for the efficient, effective and economical management of the Ministry or any department under the Ministry as per section 127 of the 2013 Constitution of the Republic of Fiji.

However, as per our over-sight role, we do follow-up with ministries on the reconciliation of their drawings account but again it is the ministries who should be raising journal entries as they also know the correct expenditure accounts that should be affected (funds permitting).

