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**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**REPORT NO. 39 OF 2018**

***Report of the Public Accounts Committee on Performance  
Audits for the year ended 31<sup>st</sup> December 2014  
(Volume 1)***



**PARLIAMENT OF THE REPUBLIC OF FIJI**  
**Parliamentary Paper No. 39 of 2018**

***May 2018***





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## Chairman's Foreword

This is my seventh report as the Chair of the Standing Committee for Public Accounts. I welcome the opportunity to showcase the progress of Government entities in Fiji continue to make. Even the issues identified in these reports have either been resolved or are in the process of being addressed.

I also thank fellow committee members for their efforts in clearing this backlog namely: Hon. Mohammed Dean, Hon. Alexander O'Connor, Hon. Aseri Radrodro, and Hon. Ratu Naiqama Lalabalavu. Members of both Government and Opposition engaged in this process in a constructive manner and this is appreciated.

This report contains two general recommendations by the Committee. These recommendations have been made in good faith, and we urge the relevant party for which the recommendation is made, to consider and respond accordingly.

I commend this report to the Parliament.



**Hon. Ashneel Sudhakar**

**Chairperson**





# CHAPTER 1: Introduction

## Background

Standing Order 109(2) (d) mandates the Committee to “...– including examining the accounts of the Government of the Republic of Fiji in respect of each financial year and reports of the Auditor-General, and for any other matter relating to the expenditures of the Government of the Republic of Fiji or any related body or activity (whether directly or indirectly) that the committee sees fit to review. The committee must only examine how public money has been dealt with and accounted for in accordance with the written law and must not examine the merits of the underlying policy that informs public spending”

This Report looks at the Report of the Auditor General on Performance Audits Volume 1 for the year ended 31<sup>st</sup> December, 2014, Parliamentary Paper 5 of 2015.

Copies of the relevant Auditor-General's reports are available for perusal on the Parliament website [www.parliament.gov.fj](http://www.parliament.gov.fj) under “Parliament Business”.

The entities which appeared before the Public Accounts Committee are as follows:

### Volume 1:

- Ministry of Employment, Productivity and Industrial Relations;
- Ba Town Council;
- Lami Town Council;
- Lautoka City Council;
- Nadi Town Council;
- Nausori Town Council;
- Suva City Council
- Ministry of Local Government, Housing and Environment;
- Ministry of Infrastructure and Transport; and
- Ministry of Economy



## **Committee Recommendations**

The Committee recommends the following:

1. The Office of the Auditor-General to conduct a follow-up audit on the 5 entities highlighted in the 2014 Performance Audit Report Volume 1 and ensure that each objective or the purpose of the audit are met.
2. The relevant Ministries and Department outlined in Performance Audit Report to take note of the Committee's recommendations outlined in this Report.

## **Committee Members**

The Standing Committee on Public Accounts comprises the following Members of Parliament:

Hon. Ashneel Sudhakar MP, Chairman  
Hon. Mohammed Abe Dean MP, Deputy Chairman  
Hon. Alexander O'Connor MP (Member)  
Hon. Aseri Radrodro MP (Member)  
Hon. Ratu Naiqama Lalabalavu (Member)

## **Resource Persons**

The Committee together with the officials from the Office of the Auditor General conducts public hearings in the Parliamentary precincts. The officials that assisted the Committee were:

### **OFFICE OF THE AUDITOR GENERAL:**

Mr. Dineshwar Prasad  
Mr. Jayant Ram  
Mr. Amit Pal  
Mr. Kuruwara Tuinisalevu  
Mr. Niraj Kumar  
Ms. Unaisi Namositava  
Ms. Nunia Michael  
Ms. Alanieta Nasilivata  
Mr. Kelemedi Tuione  
Mr. Shadab Ali

### **CONSULTANT(s)**

Mr. Robert Oakeshott





## 2014 AUDIT REPORT ON PERFORMANCE AUDITS – VOLUME 1

### Management of National Employment Centre

#### Background of NEC

The National Employment Centre (NEC) was established under the National Employment Centre Decree No. 54 of 2009 to provide social justice to unemployed persons through provision of skills and competencies, as well as facilitate their participation towards sustainable employment.

NEC's primary objective is to boost employment creation and improve productivity through improved governance frameworks. A core function is to consolidate all employment creation agencies into a "one-stop" service for all unemployed.

The core businesses of NEC are;

1. Integrated Human Resources Development Programme for Employment Promotion (IHRDPEP) and its 7 sub programmes managed by the NEB secretariat under the ministry of Labour (agreed at DSC and ERAB for the IHRDPEP employment promotion programmes to be shifted from the Ministry of National Planning to Labour Ministry for logistics and governance reasons.)
2. Life skills and employment skills training and work attachments for absorption into formal and informal local employment with the National Youth Service Scheme (NYSS).
3. Entrepreneurial skills training and creation of small businesses locally through seed funding and technical support services with the National Centre for small & micro Enterprises Development (NCMED).
4. Promotion of overseas employment opportunities by the NEB Secretariat via Ministry of Foreign Affairs protocol.
5. Volunteer service under Fiji first National Volunteer Scheme managed by the NEB secretariat for those wishing to promote civic responsibilities to the various sectors both in Fiji and also in the pacific region and overseas.
6. Networking and strategic partnerships with training agencies and authorities such as TPAF, FIT, TVET, Ministry of education and the National Qualification Authority for the provisions of skills training and re-training or up-skilling of unemployed persons and workers; and
7. Collation and analysis of labour market supply and demand information & data to facilitate the effective delivery of the NEB core business, and advice on priority disciplines for scholarship funding.

The functions of the NEC Board include:

1. establishing the overarching National Employment Centre's strategic plan and corporate plan vision, mission, values, targets and strategies, rationalizing and integrating the strategic plans and corporate plans of the Formal Employment Service, the Self-Employment Service, the Fiji Volunteer Service and the Foreign Employment Service;
2. ensuring the achievements of the Centre's overarching strategic plan and corporate plan targets every year, compatible with national unemployment needs and Government's commitments to the Peoples Charter for Change, Peace and Progress;
3. ensuring an efficient and effective National Employment Centre established under the Ministry by this Decree;
4. ensuring the efficient and effective consolidation of all existing employment creation services within or under the jurisdictions of Government ministries and departments under the National Employment Centre Secretariat umbrella, operating under the Ministry's jurisdiction;
5. ensuring the efficient and effective operations of all the Employment Creation Services established under this Decree;
6. ensuring the efficient and effective implementation of employment creation policies of Government through the various Employment Creation Services by way of effective facilitation, coordination and monitoring roles;
7. ensuring efficient and effective strategic partnerships with vocational training and other training institutions, including the disciplined forces to realize quality competency-based skills training for all attachés, volunteers and unemployed persons;
8. ensuring an efficient and effective national registration system for all the unemployed throughout the Fiji Islands;
9. ensuring the provision of quality and professional counselling services to all unemployed persons;
10. ensuring the establishment and sustainability of the Fiji Volunteer Service and the Foreign Employment Service through the National Employment Centre Secretariat;
11. finding innovative ways and secure partnerships to significantly create and boost employment opportunities for the unemployed, such as the adoption of progressive information and communication technologies in training and development;
12. boosting entrepreneurship skills training and the creation of small businesses locally through the provision of seed funding and technical support services;
13. promoting, facilitating and boosting local and overseas employment opportunities through progressive media marketing and other effective strategies;
14. promoting, facilitating and boosting participation in the Fiji Volunteer Service for services locally, regionally and internationally;
15. promoting and facilitating quality skills training and re-training or up-skilling of unemployed persons and workers;
16. ensuring the timely collation and analysis of labour market supply and demand



information and data relating to employment and unemployment to facilitate the effective delivery of the National Employment Centre and Employment Creation Services core businesses;

17. providing and maintaining an efficient and current national human resources database system on employment and unemployment to ensure quality policy advice to the Minister and also to facilitate the Government's human resources planning, including the allocation of scholarships;
18. advising the Minister on the performances of all the Employment Creation Services in terms of employment creation growth assuming and rationalising the employment creation responsibilities of existing boards or bodies established by any of the Employment Creation Services operating within the jurisdiction of any Government ministry or department for the purposes of organisation reform under this Decree;
19. deciding on the allocation and distribution of human resources, operating and capital budgets and assets amongst the Employment Creation Services and the National.

Formal Employment Service	Relevant section of the Decree	Objectives	Goals
Formal Employment Service	Part 8 sections 55 and 56	To provide quality human resource development service to unemployed persons to facilitate their absorption into the formal employment market and boost productivity including green productivity.	To provide quality human resource development service to unemployed persons to facilitate their absorption into the formal employment market and boost productivity including green productivity.
Self-Employment Service	Part 9 section 65 and 66	To provide quality human resource development service to unemployed persons and retirees to help them start and sustain their own small or micro enterprises, local economic development programmes or social enterprises as empowered entrepreneurs to boost employment creation and productivity including green productivity and green jobs.	Provide quality business skills training and advise for unemployed persons and retirees to facilitate their active participation in the formal, informal, urban and rural employment markets through the creation and sustaining of their own small and micro enterprises of other forms of self-employment.
Fiji Volunteer Service	Part 10 section 75 and 76	To promote a strong sense of service and civic pride amongst	To engage unemployed persons and retirees who wish to serve

		the people of the Fiji Islands	society in the spirit of volunteering in any local, regional or international undertakings, including green growth projects.  Develop a strong sense of civic pride and alleviate social problems in the nation.
Foreign Employment Service	Part 11 section 85 and 86	To provide quality human resource development service to unemployed person and retirees to facilitate their absorption into decent and environmentally responsible overseas employment to boost employment creation and productivity.	To provide quality foreign employment services which involve orientation training to the unskilled, semi-skilled or skilled employed persons and retirees to facilitate their recruitment into the foreign employment market.

20. Employment Centre Secretariat in accordance with the Government policy to establish the National Employment Centre and associated restructuring reform;
21. deciding, in consultation with the Minister, on the employment creation core businesses of the Employment Creation Services during the establishment or designation of the Formal Employment Service, the Self-Employment Service, the Fiji Volunteer Service or the Foreign Employment Service;
22. deciding, based on the determination of employment creation core businesses under subsection(1)(v), the rationalisation of organisation structures and positions in these Services, their numbers, grades, salary levels, contractual terms and conditions of employment and performance management systems to be adopted that are compatible with the market demands of the various employment and business markets to ensure that these Services are market- driven, cost-efficient and cost-effective;
23. inquiring into and reporting to the Minister on matters relating to employment creation referred to it by the Minister;
24. providing the Minister with biannual reports on the progress in implementing the employment creation policies of Government under this Decree; and
25. advising the Minister on any other employment creation matter as well as matters provided for by this Decree and any other written law, including;

An enabling NEC framework was agreed as the best way forward to address all these above issues following consultations and policy considerations, in particular the Development Sub-



Committee (DSC) meetings on 5<sup>th</sup> November, 2008 and 20<sup>th</sup> May 2009, in addition to discussions with stakeholders in the Employment Relations Advisory Board (ERAB) in its meeting on the 12<sup>th</sup> of May 2009. The policy concept was approved by Cabinet on the 4<sup>th</sup> of June 2009 as per Cabinet Decision No. 59.

The decision by Cabinet to approve the establishment of NEC followed factors identified in Cabinet Paper (09) 45 of 28<sup>th</sup> May 2009 as reasons in the poor delivery of governments employment creation services:

1. too many government agencies administering employment creation activities(a total of 10);
2. too many separate and fragmented employment creation policy framework;
3. lethargic responses to employment creation needs due to bureaucratic arrangements and procedures;
4. piecemeal evolution of different employment creation policies over the years without review;
5. service delivery mechanisms within national Government agencies incompatible to quickly respond to very aggressive labour market employment demand in context of local and economic crisis;
6. absence of any national integrated policy framework for employment creation;
7. absence of any national "one stop" agency that is cost-effective outside the Civil Service; absence of quality management systems to improve the delivery of employment creations services;
8. lack of professionally qualified and trained personnel to manage and undertake employment creation services;
9. absence of a National Qualification framework to benchmark employment skills to recognised international standards and boost productivity;
10. poor governance framework;
11. Lack of political will in the past to satisfactorily reformed employment creation policies and services in cost-effective and cost-efficient manner.

The NEC was officially launched by the Minister for Labour, Industrial Relations and Employment on Friday 4<sup>th</sup> June, 2010 at the Holiday Inn, Suva.

### **Office of the Auditor-General Performance Audit**

The Office of the Auditor-General (OAG) undertook the performance audit of NEC to ascertain the extent and effectiveness of the NEC and the Employment Creation Services in implementing the government's vision. The objective of the audit was to assess the effectiveness of the actions taken by key agencies to ensure the provision of quality employment services to the unemployed and the creation of decent and environmentally sustainable employment by examining:

1. the key arrangements for NEC existence and operation;
2. the managing of key activities for NEC; and
3. the reporting and monitoring of NEC activities.

The audit focused mainly on the Ministry of Labour and Industrial Relations. The remaining agencies included in the NEC Decree 2009 to be involved in the management of NEC were not covered in detail.

As per Cabinet Decision 303/2009, Cabinet approved the establishment of the National Employment Centre through the enactment of the National Employment Centre Decree No.54. Under section 103 of the Decree, the Minister for Labour, Industrial Relations and Employment is empowered to make regulations giving effect to any provisions of the Decree. The OAG audit found that seven regulations have been developed as required in the Decree. The seven regulations were submitted for Cabinet endorsement on the 4<sup>th</sup> of June 2010, and endorsed by Cabinet on 7<sup>th</sup> June 2010. The following identifies the Regulations and a brief description of their contents;

1. National Employment Centre (Administration) Regulations 2010 - the Regulation specifies the management and operations of the National Employment Centre.
2. National Employment Centre (Trust Fund) Regulations 2010 - the Regulation specifies the management and operations of the National Employment Centre Trust Fund.
3. National Employment Centre (Formal Employment Service) Regulations 2010 - the Regulation specifies the management and operations of the Formal Employment Service.
4. National Employment Centre (Self Employment Service) Regulations 2010-the Regulation specifies the management and operations of the Self Employment Service.
5. National Employment Centre (Fiji Volunteer Service) Regulations 2010 - the Regulation specifies the management and operations of the Fiji Volunteer Service.
6. National Employment Centre (Foreign Employment Service) Regulations 2010 - the Regulation specifies the management and operations of the Foreign Employment Service.
7. National Employment Centre (Code of Ethics) Regulations 2010 - the Regulation specifies the Code of Ethics for the National Employment Centre Board, NEC Secretariat, officers of the Employment creation services, any trainee, attaché or volunteer or person employed on a contract of service or contract for service by NEC.

As at the date of audit these regulations had not been gazetted. As well, at the date of audit, no response had been provided by the Solicitor General's Office despite various follow up



attempts made by NEC.

Discussion with the responsible officer also noted that another review of the regulations was made in 2012 and sent to SGs Office for vetting. At the date of audit, no response had been provided by the SGs Office. Audit followed up with the responsible officer at Solicitor General's Office; however no response was provided from the officer. Due to the above irregularity the Ministry is using the Decree as the main legislation governing NEC. There is a risk that the effective management of NEC is hindered by the lack of appropriate regulations that gives effect to the provisions of the Decree.

Responses from NEC to the PAC inquiry process indicated these Regulations were aiming to be completed and gazetted by June 2018.

Audit gathered that a new set of invitation has been sent to representatives by the Minister for membership for the period 1 January 2014 to December 2015 which also includes the existing tenure of current Board members. No explanations were provided by the Ministry on the anomaly. Since inception, there has been a noticeable gender imbalance on the Board.

The OAG audit noted the required number of staff for NEC endorsed by Cabinet has not eventuated. Audit established the current staffing provision does not cater for the staffing of the Foreign Employment Service (FORES). It only caters for the NEC Secretariat and the Formal Employment Services.

The staffing of the other Departments of NEC including the Self- Employment Services and the Fiji Volunteer Services as initially proposed to Cabinet has also not eventuated.

As a consequence, Audit found that the limited number of staff for NEC currently under the Ministry of Labour has greatly affected its operations in the centres. The limitation in staffing for NEC is detrimental to the efficiency and effectiveness of the Centres operation.

An employer who employs more than 50 workers must engage suitably qualified unemployed persons as attachés or volunteers on a ratio of at least 5% of the total number of workers employed by the employer.

Audit gathered that whilst the requirement under the Decree is mandatory for employers employing more than 50 workers to engage volunteers and attaché, practicality of its application is somewhat difficult. Discussion with officers in charge at NEC Secretariat revealed that the current approach taken by the Secretariat is that they identify the employers who employ more than 5 percent first before they can liaise with them via email or phone to check if they are interested in taking in volunteers and attaché.

Audit gathered that since the NEC inception in 2010 it has managed to sign 389 MOUs with the employment providers. The number of MOU signed by employers indicates willingness

from various employers to support the programme. Therefore, there is every potential for the number to considerably increase provided if the requirement of the Decree is complied with.

### **Summary of OAG process**

The Office of the Auditor-General (OAG) looked into three areas when undertaking their performance audit; key arrangements for NEC existence and operation, management of NEC key activities, and reporting and monitoring of NEC activities.

#### **1. Key arrangements for NEC existence and operation**

- Seven Regulations have been developed as required by the NEC Decree 2009 which was subsequently reviewed in 2011. However, the Regulations are still awaiting vetting from the SG's Office before gazetting.
- The NEC Board since 2011 has not been having the required number of meetings as prescribed under the NEC Decree 2009.
- The establishment of Self Employment Services (SES) is still awaiting implementation of Cabinet Decision 85 of 13<sup>th</sup> March 2012.
- The required number of staffing for NEC endorsed by Cabinet has not eventuated. The limited number of staff for NEC currently under the Ministry of Labour has greatly affected its operations in the centres.
- NEC has not been effective in engaging strategic partners.
- Practical application of section 44 of the Decree is somewhat difficult.
- Training package for competency based and value based skill is not broken down into modules to adequately cover ISO 9001 and ISO 26000.

#### **2. Managing key activities of NEC**

- Identification cards are not issued to the unemployed persons who have been registered with NEC.
- No evidence existed to indicate that a criterion is in place governing engagement of consultants providing professional counseling services.
- The NEC database has limited ability to generate some essential and required reports.
- NEC was not able to meet their 2012 awareness target and conduct awareness for tertiary institutions.
- The Centre has not been able to conduct the LST regularly throughout all the centres. The unavailability of a suitable venue has been a major hindrance.
- The current system of identifying the suitable employment skill training is not effective as there are stills more NEC clients not being absorbed into the permanent workforce.



### **3. Monitoring and Reporting activities of NEC**

- The Centre has not prepared quarterly or bi annual performance reports as required under the given legislation.
- Audit was not able to ascertain whether reports from the two agencies providing services not managed by NEC were prepared and submitted quarterly, bi-annually and annually by the responsible agencies.
- Review of the NEC Board papers prepared for the Board's recent meeting found errors in the performance update of certain activities of the NEC.
- Apart from NEC the other ECS agencies do not submit their annual report to NEC Secretariat that will enable them to integrate it as an integrated report of all the ECS.
- The mechanism in place to monitor absorption of clients into permanent employment is not quite effective.

Audit emphasized the Ministry of Labour (National Employment Centre and NEC Board) should:

1. ensure that the term of appointment for NEC Board members outlined in the NEC Decree is complied with.
2. use the powers provided under the 2013 Constitution through the Ministry's Permanent Secretary to recruit volunteers/attachés for NEC once funds are available through savings from other votes or funds received through the NEC Trust account.
3. work towards securing better relationship with its strategic partners.
4. through its awareness program make every effort to inform employers of their obligation under the NEC Decree to employ volunteers and attachés under NEC.
5. ensure that the quality based and value based skills training package are broken down into modules such that the requirements of the ISO standards are thoroughly covered.
6. The Board should ensure the number of meetings outlined in the NEC Decree is complied with
7. The SGs Office should ensure that the vetting of the 7 Regulations for NEC indicated in this report is conducted and that the Regulations are gazetted to allow NEC to effectively carry out its operations. An update should be provided by the Office to the Ministry so that the NEC Board is updated on the subject in its meeting. The Ministry of Strategic Planning, National Development and Statistics should make every effort to ensure that the requirements of Cabinet Decision No. 85 of 13th of March 2012 are implemented.
8. The Ministry of Strategic Planning, National Development and Statistics should make every effort to consult Ministry of Labour and other relevant parties identified in the Cabinet Decision for the immediate transfer of IHRDP to NEC.
9. The Ministry of iTaukei Affairs should make every effort to ensure that the requirements of Cabinet Decision No. 85 of 13<sup>th</sup> of March 2012 are implemented.
10. The Ministry of Industry and Trade should make every effort to ensure that the

requirements of Cabinet Decision No. 85 of 13<sup>th</sup> of March 2012 are implemented.

Any person who is unemployed or on part-time employment and at least 15 years of age must register with the National Employment Centre as prescribed. The NEC registration of unemployed persons in the seven centres of the Ministry of Labour started on 14<sup>th</sup> of April 2010. As at 31<sup>st</sup> March 2014 NEC has registered a total of 33,773 unemployed persons.

Audit noted the following observations regarding the registration process:

1. the clients who register with NEC are provided with a registration number which NEC uses to follow-up on the progress of their registration. However, no identification card is issued to the unemployed person who has been registered with NEC. Discussion with the senior officers of NEC revealed that the provision of ID cards for registered clients is provided in part 5 of the NEC Administration Regulation. However, NEC indicated that since the NEC (Administration) Regulation has yet to be gazetted the centre has not complied with the requirement.
2. the process flow outlined in the SOP fails to capture the verification and authorization of registration forms before being entered into the NEC database. Audit noted that the NEC database has a mandatory field for verification and authorization which needs to be filled to complete a registration. Interviews with Customer Service Officers (CSOs) and Data Entry Officers revealed that the Manager Central/Eastern had verbally authorized them to enter their names in the verification and authorization section to furnish the requirements of the database and to successfully enter the registration. Audit found that the lack of verification and authorization of the registrations led to some duplicate serial numbers being issued to NEC application form for registration. This duplication creates confusion for the applicant and NEC CSOs because these unique serial numbers are used by applicants to follow up on their registrations with NEC.
3. The non-issuance of ID cards suggests that there exists no formal means of identification for unemployed persons already registered with NEC which reliably serve as a reference for identifying NEC registered clients.

Audit noted that the NEC Secretariat facilitates the provision of quality counseling services to all unemployed persons registered with the National Employment Centre. This service is part of the NEC process and it is compulsory for all the NEC clients to undergo.

For the period 2010-2014 the NEC had engaged a total of 18,474 clients in the activity.

Audit gathered that NEC Secretariat has engaged the Kuruleca consultants for its professional counseling services since 2010. The Kuruleca Consultants according to NEC Secretariat is recognized by the American Counseling Association. Verification of the



consultant's qualification as stated in the curriculum vitae confirmed that the consultant is qualified to provide the services. However, audit could not locate any certified certificates in the Kuruleca consultant folder to substantiate its credentials.

Audit also found that the NEC selection or engagement of counselors are vetted and scrutinized by the MLIRE Executive Managers and endorsed by the Permanent Secretary. However no evidence existed to indicate that a criterion is in place governing engagement of counselors.

In addition, audit noted from reports submitted by the consultant that NEC needs more proper planning in the organizing and scheduling of counseling sessions. Complaints were received from the NEC clients confirmed that phone calls were made to them the evening before the meeting informing them about the counseling session with specified venues and time.

Furthermore, scrutiny of the consultant's report revealed that there were sessions that had exceeded the limit of clients that should attend as per the MOU ranging from 40 to 50 NEC clients per session.

Lack of proper planning and monitoring of counseling services can result in the wastage of government resources. In addition, the non-existence of criteria for selection of counselors indicates the lack of transparency in the engagement process. Furthermore, having consultants to provide counseling outside the requirement of the agreement may have an effect on the efficient provision of services provided by the consultant.

The National Employment Centre shall establish and maintain an efficient data management system on the labour market including the registration of unemployed persons and the supply and demand of labour in the labour market. The existing NEC database was developed specifically for the Centre by a Consultant from India. The database allows NEC to capture a wide variety of information for individuals wishing to find employment. Audit noted that although the NEC database captures a wide range of data, the database has limited ability to generate some essential and required reports.

Audit also found that the database cannot generate a NEC Registration number automatically. As a result NEC officers have to follow the excel based register and assign the NEC registration number manually. Similarly, while interviewing data entry officers, audit found that the database does not prompt the data entry officer with a warning when a double entry for a registration number occurs. This indicates that the database does not assign primary key function to the registration details unlike the normal databases. There is also difficulty in adding the applicant's passport size photograph into the database.

An out dated database impairs the entities ability to achieve its intended objective. It can also impair critical decision making for NEC officers by not providing adequate data analysis

and modeled reports.

Audit found that public awareness is currently conducted by the Ministry to inform the public on the role of the National employment Centre and the benefits of registering with NEC, how to register with NEC and to inform the employers on their statutory obligation as part of the NEC.

It was gathered that the awareness campaigns are done throughout the year upon request of any particular stakeholder group instead of NEC taking the initiative to reach out to the various stakeholders. The Centre conducts this awareness through presentations, emails and through phone conversations.

For the past four years from 2010 – 2013, NEC has conducted a total of 457 public awareness campaigns throughout the country. NEC has managed to surpass their targeted number of awareness for every year except for 2012 where there able to only conduct a total of fifty three awareness. While there were 457 awareness conducted over the four year period, audit noted that no awareness was conducted in tertiary institutions in Fiji.

There is every potential for NEC to increase the awareness of its operations if the Centre is well-resourced.

Audit noted that NEC has only managed to achieve the targeted number of 2,500 annually in 2011. Discussions with senior officers revealed that the Centre has not been able to conduct life skills training (LST) regularly throughout all the centres. The unavailability of a suitable venue has been a major hindrance since NEC has to identify and book the venue in advance.

Audit also established that curriculum for the life skills training was developed as part of the Labour Reform in 2010. The main objective was that a value based training be developed and train the unemployed before employment so that the sustainability of employment is stable. The training was aimed at providing a basic nurturing program for unemployed candidates. The Life Skills Training package has not been reviewed since 2010. In addition audit found that all the LST units offered are not well suited for the Foreign Employment Services in view of the fact that clients under this Service will be engaged abroad. There is a risk that the use of the out-dated training program may not achieve the intended objective and thus will be unsuccessful in adding value.

The systems of identifying the suitable employment skill training is not effective as there are still more NEC clients not being absorbed into the permanent workforce. NEC conducted a survey in 2012, interviewing most employers that are not involved in taking NEC clients and found that NEC needs to review its strategy. Instead of identifying clients for EST by obtaining their need as indicated in their registration form, NEC should provide EST for



areas that are of demand in the market so as to guarantee their absorption into the workforce. The limitation in funding has a detrimental impact on the number of EST provided by NEC.

Audit gathered that NEC has developed a reporting procedure in their SOP which serves as a guide for preparations, submission and consolidation of their required reports. In the absence of a performance report, the Centre will not be able to evaluate how effectively they are implementing and managing the employment creation services. In addition, errors in the performance report included in the Board papers may result in the members of the Board being mis-informed of the performances of NEC.

The non-submission of annual reports by the various ECS agencies limits the information provided to users of the report on the performance of NEC.

Audit gathered that the mechanism in place to monitor absorption of clients into permanent employment is not quite effective. NEC conducts follow ups on all individual trainees for more than six months on the NEC trainees work, business attachment or foreign employment status for the purpose of repayment. The mechanism in audits opinion is highly unreliable.

There is a risk that large amount of monies invested by the Government through NEC may not be recovered due to absence of an effective monitoring system.

The success and sustainability of the program is heavily reliant on the finalization of the draft Regulations and the co-operation and commitment of other agencies that are part of the initiative.

## **Gender Analysis**

Gender is a critical dimension to parliamentary scrutiny. Standing Order 110(2) requires Committees to consider gender equality and ensure that the impact on both men and women is explored in all matters.

Gender analysis of the Board make-up indicates an imbalance. Future planning should occur within Government and within the NEC to improve gender balance in future Board invitations.



## **Committee Recommendations**

Following hearings and submissions, PAC recommends the following:

### **Recommendation 1**

The Government must complete the necessary process on the 7 Regulations by gazetting as outlined in the Audit findings of 22<sup>nd</sup> May, 2014 for the National Employment Centre to fulfil its desired intent.

### **Recommendation 2**

Data collection and circulation to decision-makers is a vital part of better public policy for the future of Fiji, and therefore more emphasis and improvement on data management should occur. The Committee noted that NEC could not provide specific descriptions of the type of activities undertaken by the respective Employment Creation Services (ECS).

### **Recommendation 3**

As a form of control NEC should issue identification cards to all customers registered under NEC. Lack of financial allocation to NEC was the reason it had to cut back on many areas of operations.

### **Recommendation 4**

NEC should review the process of registering its customers to capture the verification and authorisation of registration forms before being entered into the database. The Committee was informed that NEC is still in the process of revamping its database system.

### **Recommendation 5**

The Parliament should note the discrepancy between the intent of the 2009 Decree and the actual staffing and funding allocated at the National Employment Centre. This resource gap makes the actual implementation of desired goals more difficult, if not unachievable. PAC noted that initially when NEC was established, the actual funding was insufficient to cater for the staffing. As of 2013, with the approval of budget the staffing issue was resolved.

### **Recommendation 6**

The Ministry of Labour should continue to follow up with the various government agencies to ensure the full implementation of Cabinet Memorandum CP (10) 154 and requirements of the NEC Decree 2009 in respect to the staffing of NEC Secretariat which did not eventuate during the time of audit.

### Recommendation 7

NEC Secretariat should ensure that a proper and transparent process is followed in engaging consultants for counselling services.<sup>1</sup> The issues highlighted in the Audit report of 2014:

- Verification and location of certified certificates of the consultant's qualifications and credentials; and
- Non-existence of evidence outlining the criteria in place governing the engagement of counsellors by the line Ministry (MLIRE).<sup>2</sup>

In this regard it should ensure that appropriate documentations are available to justify consultant selections.

Further to this, NEC should improve on its scheduling and organising of counselling sessions and also ensure the terms and conditions of the contract with the consultants are complied with.

### Recommendation 8

NEC should re-assess the capability of its database and address these areas as a priority. The database does not capture the feedback from employers once a client has been employed. PAC also noted that essential information were missing from the database.

### Recommendation 9

NEC should review its training package for Life Skills Training (LST) to ensure that it suits all clients under the four Employment Creation Services (ECS). In this regard training packages should be tailor made to the needs of each Service. In view of funding limitations NEC should review its strategy for provision of Employment Skills Training (EST) to ensure that the program is successful. Funding limitations have been addressed by the increase in staff allocation therefore NEC is now able to meet its Annual targets. However, there still exists a need to update this information on the database.

### Recommendation 10

The Centre should ensure that the requirements of the NEC Decree are complied with in respect to the preparation and submission of quarterly and bi annual performance reports. The Centre should ensure that proper checks are made to the performance audit report before being endorsed and submitted as Board Paper for the Boards discussion. PAC also

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<sup>1</sup> NEC Decree 2009 Part 6 s.27

<sup>2</sup> No framework but NEC is working on it now with the Fiji Higher Education on the content of both the Professional Counselling and Aptitude Test.



recommends that to ensure the quality of service delivery NEC be appointed with a Director as soon as possible.

#### Recommendation 11

As per the 2009 NEC Decree, NEC should send requests to all agencies managing the Services not under their responsibility to send their annual reports for activities relating to NEC on an yearly basis. The Committee noted given the non-implementation of the earlier Cabinet Decision of March 2012.<sup>3</sup> This is still a challenge and will continue to be unless fully implemented.

#### Recommendation 12

NEC should put in place an effective monitoring system to establish employment of customers under its programme. A suggested approach is for NEC to work with:

- Fiji National Provident Fund – Through issuance of FNPF membership,
- Department of Immigration – Through records of overseas work permits and schemes;
- Fiji Revenue and Customs Service – Through the issuance of Joint cards; and
- Registrar of Deaths – Certification of deceased clients.

These will identify the clients having been employed.

A Memorandum of Understanding should be pursued with FNPF, Department of Immigration, FRCS, and the Registrar of Deaths for NEC to pursue this option. This will also ensure a timely update of the clients registered in the NEC database.

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<sup>3</sup> Cabinet Decision 85 [13/3/2012]. The Cabinet Decision in this respect required the following:

- the declaration of the Integrated Human Resource Development Programme for Employment Promotion (IHRDP) operating under or hosted by the Ministry of Strategic Planning, National Development and Statistics, the Centre for Appropriate Technology and Development (CATD), operating under the Ministry of iTaukei Affairs and the National Centre for Small and Micro-Enterprises Development (NCSMED) operating under the Ministry of Industry and Trade as Self-Employment Services as per Legal Notice No.112 of 2009.
- The immediate transfer of the Integrated Human Resources Development Programme (IHRDP) and its relevant resources from the Ministry of Strategic Planning, National Development and Statistics to the NEC in consultation with the Ministry of Finance, the Public Service Commission, the Solicitor General's Office and the Ministry of Strategic Planning, National Development and Statistics.

## **Contractual Engagements by Municipal Councils**

### **Background**

Some of the Municipal Councils service deliveries to the rate payers are performed by contractors mainly due to the lack of resources within the Councils. These contractors enter into contractual agreement with respective Councils with the common aim to provide quality service to raise living standards amongst the rate payers and the general community.

The audit on Management of contracts in Municipal Councils focused on three main areas including policy framework governing contractual engagements, key activities of contractors' engagements and managing contractors' performance.

The audit covered seven of the thirteen municipal councils in Fiji.

None of the Councils visited have developed a policy governing the management of contractual engagements. Most the Councils visited were following tender procedures outlined in the Manual of Accounts for Municipal Councils in Fiji which was endorsed in 1992. Detailed planning of outsourced services were lacking in six of the Councils visited. Further to this risk assessment of contractual activities were not conducted by all the Councils visited.

Generally records maintained on activities relating to contractual engagements needs to be improved. It is pivotal that contract files contain information relating to tender evaluations, contractual agreement, correspondences between the Council and the contractor and other key activities of the engagement. Equally important is the compilation of contracts inventory and contracts register to evidence the contracts undertaken by the Councils over the years.

There is also a need to separate parties currently involved in the evaluation and approval of tender proposals to ensure transparency in the tender process. The criteria for tender evaluation is also lacking in most of the Councils. Contractual agreements being entered into by most of the Councils needs to be reviewed to incorporate other key items highlighted in this report. A few of the Councils also need to have their agreements vetted by a solicitor.



Stringent controls also need to be put in place to ensure payments made to contractors are within the requirements of the contract agreement.

Some evidence of monitoring of contractual engagement was noted to have been conducted by most of the Councils; however there have been lack of proper documentations to indicate the results of monitoring works. This anomaly was mainly attributed to the absence of a monitoring policy in place and non-specification of monitoring requirements in the contractual agreements. The evaluation of the contractors' performance and preparation of a contract performance report was not conducted by all the Councils. Such is the case mainly due to the non-inclusion of the requirement in the existing contractual agreement.

## **Key findings**

### **Policy framework governing contractual engagements**

The Department of Local Government has no standard guideline in place governing contractual engagement to be used by all Municipal Councils.

The Department Local Government has not reviewed the existing 1992 Manual of Accounts used by the Councils to reflect changes and development in the Councils.

- Most of the Councils do not have detailed planning such as done by Suva City Council to Key elements of contractual engagements
- Nausori Town Council did not have an engineer and head of the health to provide technical input in the identification of contracted works.
- Responsibility of tender evaluations and approving tenders are not separated.
- Most of the Councils did not have evaluation criteria to evaluate tender proposals.
- Contractual agreement did not incorporate key items.
- Existing contracts approaching expiry term were not reviewed prior to their renewal.
- Contractual agreements were not vetted by a solicitor in some Council.
- Documentation of contractual activities was generally lacking.
- Internal controls in the payment of contractors were lacking in some Councils.
- Managing contractors' performance
- Documentation of monitoring of contracted works were lacking in most Councils.
- Nausori Town Council engaged a project manager to monitor works conducted by five contractors without proper provisions in the agreement on monitoring and reporting of the project manager.
- None of the Councils conducted an evaluation of contractors' performance following

expiration of contracts.

- Monitoring, reporting and evaluation of contractors' performance were not included as part of the contractual agreement in most of the Councils.
- Complaints register were not updated in a timely manner in most of the Councils. The audit recommends that each Council covered in this audit look into the issues raised in this report and work towards addressing the anomalies identified for their Councils.

Local governments play an important role in improving living standards of communities located within their municipal boundaries. In this context Councils are required to ensure that resources are used efficiently and effectively and services are provided to best meet the needs of the community and to improve the overall quality of life of people within the community.

Municipal Councils provide a wide range of services that improve standards of living for its rate payers, such as collection of household rubbish, maintenance of drainage and roads infrastructure, provision and maintenance of public utilities, sports facilities, recreation facilities, etc. The wide range of services required to be provided by Councils, and given the limited resources available to them, has led many Councils to contract some of its services to private contractors. Payments of contracts for such services constitute a significant portion of a municipal council's expenditure.

The fundamental best practice principles that Councils should apply to every contractual engagements irrespective of the value and complexity of the arrangement include:

- Value for money. Obtaining value for money does not mean a Council is obliged to accept the lowest price. The concept of value for money takes into account both costs and non-cost factors including quality, service and support and advancing the Council's priorities.
- Open and fair competition. All prospective contractors must be treated fairly in an open and transparent manner.
- Accountability. Council staffs are responsible for the actions and decisions they take in relation to contractual engagements and for the resulting outcomes. Staffs must ensure that they provide adequate and reliable advice to the relevant authorities to allow sound decisions are made on contractual engagements.
- Risk management. All contractual engagement carries some level of risk. It is vital for Councils to recognise these risks and develop appropriate strategies to deal with them.
- Probity and transparency. Councils must conduct their business in a fair, honest and open manner demonstrating the highest level of integrity consistent with the public interest.



## **Legislation governing municipal councils operations**

Although they vary in sizes, geographies, populations and resources, all municipal councils are governed by the Local Government Act (Cap 125). Altogether there are a total of 13 Municipal Councils established around the country, consisting of eleven (11) town councils and two (2) city councils.

Under Section 90 of the Act, Municipal Councils are required to;

- a) promote or establish and maintain public utility services including public transportation;
- b) construct or maintain any public works which in the opinion of the council may be necessary or beneficial to the municipality; and
- c) contribute to the cost of the matters referred to in paragraphs (a) and (b).

Every Council is required to undertake activities lawfully and may expedient to promote the health, welfare and convenience of the inhabitants of the municipality and to preserve the amenities or credit thereof. A Council may make by-laws prescribing forms, fees, matters and things which are contemplated by this Act or are required or permitted by this Act to be prescribed, or which appear to the council to be necessary or convenient for the peace, good order and government of the municipality and for the purpose of effectually carrying out the provisions of this Act, or for better effecting the operation, objects and purposes thereof.

The choice of contracting services to deliver programs and services required is considered a risk. Since payments of contract services constitute significant expenditures, it is susceptible to collusion and mismanagement.

Previous financial audits conducted have highlighted a number of deficiencies with regards to how contracts are tendered, issued, managed and controlled by Municipal Councils, and have raised some concerns on non-compliance with required policies, laws and regulations.

The contracting process and directives on contracting have not changed and as such an audit in the area could also lead to some improvements such as policy reviews or development, and improved contracting practices in municipal councils.

All Councils should have a documented contract policy in place to assist them in managing contractual arrangements. The purpose of a documented contract policy is to promote value for money, reduction of risk and fraud, waste or other irregularities.

Risk assessment should be an integral part of all aspects of contractual engagements. This

requires the identification of risks and where appropriate the implementation of risk treatment. This in turn involves identifying the events where risks are likely to be the highest and/or adverse effect of an event or occurrence is likely to be the greatest.

### **Existence of effective policy framework**

A written policy should be in place for all Municipal Councils to provide guidance on aspects of contractor selection, management and monitoring of contractors and the legal issues pertaining to contract implementation.

Suitable policies to support the management of contract should be established, maintained and communicated.

The Manual of Accounts for municipal councils should be reviewed to take into account changes in developments and expectations having an effect on the subject matter.

Discussions with responsible officers in the Municipal Councils revealed that there is no uniform policy for all municipal councils governing the contractual engagements.

None of the Councils visited have a policy in place to govern the management of contracts. Most of the Councils have developed and adopted preferable Tender Policies to guide the respective tender processes.

Contract planning and management covers all activities at the commencement of, during and after the contract period. It is the process that ensures both parties to a contract fully meet their respective obligations as effectively and efficiently as possible, in order to continually deliver both the business and operational objectives required from the contract.

Success in contract management occurs when the arrangement of service delivery continues to be satisfactory to both customer and supplier, expected business benefits and value for money are being delivered and realized, the supplier is co-operative and responsive, disputes are rare and the contract is fully compliant and satisfies both legislative and audit requirements.

In addition, all Councils have been using the Manual of Accounts that was introduced in 1992. The idea behind this Manual was to provide an accounting manual for municipalities originated from a discussion that took place between the Auditor General and the Local Government Association some 10 years back. The idea was suggested by the Auditor



General at the time because of the obvious need to institute uniform and appropriate accounting standards and procedures for the effective control and management of municipalities' finances. For various reasons the municipalities have been using different accounting standards which over the years have proved somewhat inadequate for proper control of their finances.

The table below summarizes our findings on existence of a contract policy within the Councils visited.

Table 4.1: Existence of contract policy

<b>Council</b>	<b>Is a contract Policy in place?</b>	<b>Audit comments</b>
Ba	No	Accounting manual is in draft form and it has a section on contract and contractual payments. The manual is yet to be presented to council for approval
Lami	No	The Council uses the Manual of Accounts.
Lautoka	No	The Council's accounting policies and procedure manual is in a draft form and is yet to be approved by the Council.
Nadi	No	The Council operating procedures is yet to be approved by the Council. The Council is following the Manual of Accounts.
Nasinu	No	The Council has a Tender Policy and the old Manual of Accounts in place to guide them.
Nausori	No	The Council is currently using a tender policy which is currently under review.
Suva	No	There is a procurement instruction but staff were not using it.

It can be interpreted from the above table that there is no specific policy on management of contracts. Most of the Council are following tender procedures stated in the Manual of Accounts for municipal council which was endorsed in 1992.

The use of draft policies in some of the Council indicates that such policies have been



adopted without proper endorsement of management. In addition untimely review of the existing manual indicates that required changes and developments relating to contract management are not incorporated as part of the document.

### **Existence of contract planning**

Contract planning ensures delivery of desired project outcome. It considers a broad range of factors including driving continuous improvement, value preservation and additional value creation, performance management, risk mitigation, role clarity, and the value of contractors' relationship, and quality assurance.

Our review on the contract planning gathered that most of the Municipal Councils have plans for capital projects and development in their jurisdiction. This is incorporated in the form of capital works program and with some Council and is inserted as part of the capital budget. The respective Councils formulated a 5 years Strategic Plan for 2010 – 2014 which incorporates the strategic plan for capital projects. However, audit noted at this planning stage, most of the Councils have not decided on the project works that will be contracted.

Plans for capital projects usually planned out by the different departments within one Council. For example, the engineering department provides plan for the construction works such as ground development, roads infrastructure repairs, etc. while the building department provides plan for any building development projects, repairs and maintenance.

For the Councils that were visited, except for Suva City Council all other Councils showed no evidence of detailed project planning conducted on contractual works undertaken. For the Suva City Strategic Capital Project Plan, when a project is identified, the following details were specified:

- Different tasks name with an identification number
- Duration of the project
- Starting date
- Finishing date
- Work schedule that shows the time period when a task ID needs to be completed.

For the remaining Councils visited the following were noted after our review of the contract planning system:

**Table 4.2: Observations on contract planning system**

<b>Councils</b>	<b>Existence of contract planning?</b>	<b>Audit comments</b>
Ba	No	<p>The project planning for the Council is covered in the 5year strategic plan from 2010 – 2014. The plan has been prepared after consultation with the stakeholders.</p> <p>The plan covers the review of the current process and the identification of infrastructure and implementation and changes that has to be made in a five year period.</p>
Lami	No	Capital projects identified with its estimated costs incorporated in the Strategic Plan 2010-2014.
Lautoka	Yes but no specifications provided	The Council has a strategic plan (5yr plan) for improvement of infrastructure. The formulation of the strategic plan involves various stakeholders and their views were also incorporated in the plan.
Nadi	No	Indications were made that a strategic plan exists but no copies were provided to audit.
Nasinu	No	No capital project plan was provided from Engineering Department; however capital expenses were incorporated in the budget.
Nausori	No	No capital project plan was provided. There were no HODs for Engineering, Health, and Building to prepare the plans. However, capital expenses were incorporated in the budget but no project work details provided.

**Risk assessment**

Risk assessment for contractual purposes comprises those activities associated with identifying and controlling the risks that may potentially affect the successful fulfilment of the contracted work.

The following table detailed some of the key sources of risk and examples of risks that



needs to be considered when contracting services to an external party.

Table 4.3: Sources and examples of risk

Sources of risk	Examples of risk
Contract management knowledge and capability	<ul style="list-style-type: none"> <li>• Lack of understanding of Council contractual policies and reporting requirements.</li> <li>• Lack of experience in the management of contracts.</li> <li>• Lack of training in the area of contract management.</li> </ul>
Resourcing	<ul style="list-style-type: none"> <li>• Inability to obtain and retain necessary level of resources including staffing advice.</li> <li>• Failure to obtain senior management support and involvement.</li> <li>• Insufficient time to develop contractual agreement.</li> </ul>
Contract performance measurement	<ul style="list-style-type: none"> <li>• Failure to specify performance indicators that can be cost effectively measured.</li> <li>• Failure to link contract payment to satisfactory performance.</li> <li>• Failure to establish cost-effective performance monitoring and assessment arrangements.</li> </ul>
Contract management capability	<ul style="list-style-type: none"> <li>• Failure to have sufficiently skilled and experienced resources to effectively manage contractual services</li> <li>• Failure to act on contractor under-performance</li> </ul>
Contractor performance	<ul style="list-style-type: none"> <li>• Failure to provide services on time to agreed quality and standards</li> <li>• Failure to adhere to agreed budget</li> <li>• Failure to comply with contractual agreement provisions</li> <li>• Fraud and/or unethical conduct by a contractor</li> </ul>
Changes in circumstances and/or requirements	<ul style="list-style-type: none"> <li>• Contract changes not dealt with as contract variations</li> <li>• Contractor not prepared to agree to contract variations to accommodate changes in entity requirements</li> <li>• Changes in circumstances not managed in a timely manner</li> </ul>

Our audit at the seven Councils visited gathered no evidence to indicate that risk management has been addressed in detail in all activities relating to contracting of services. The effective management of risks attached to contractual activities has the potential to save



the Councils considerable monies as well as ensuring that the Councils are deriving maximum return from monies invested in contractual works.

## **AUDIT OBJECTIVES SCOPE AND METHODOLOGY**

### **Audit Objectives**

The overall objective of the audit is to determine the effectiveness of municipal councils in managing contracts of services by examining:

- the policy framework governing contractual engagements;
- key elements of contractual engagements; and
- managing contractors' performance.

### **Audit scope**

The audit focused on contracts executed by 7 of the 13 municipal councils [i.e. 4 from the Central division and 3 from the Western division] for the years 2012 to 2014. The Councils are listed in the table below:

Table 3.1: Councils visited

<b>Division</b>	<b>Councils</b>
Central	<ul style="list-style-type: none"><li>• Suva City Council</li><li>• Nausori Town Council</li><li>• Nasinu Town Council</li><li>• Lami Town Council</li></ul>
Western	<ul style="list-style-type: none"><li>• Lautoka Town Council</li><li>• Nadi Town Council</li><li>• Ba Town Council</li></ul>

The audit did not look into any contracts entered into under the old local government set up i.e. prior to 2008, however the audit may use any guideline or system from those years that is currently valid and used by the Councils.

### **Audit methodology**

The audit used the following methodology to gather information for the audit:

## Documentary review

The audit reviewed various documents to gather information on the management of contracts in the municipal councils. The major documents reviewed are listed below:

Table 3.2: Details of documents reviewed and source during audit

<u>Municipal Council</u>	<u>Documents</u>
Ba Town Council	<ul style="list-style-type: none"><li>• Annual Corporate Plan 2011</li><li>• Strategic Plan 2010 – 2015</li><li>• Contract file</li><li>• Complaints register</li></ul>
Lami Town Council	<ul style="list-style-type: none"><li>• Annual Corporate Plan 2010</li><li>• Annual Corporate Plan 2012</li><li>• Strategic Plan 2010 – 2014</li><li>• Contract Agreement between Nasinu, Lami and Nausori Town Councils</li><li>• Contract file</li><li>• Complaints register</li></ul>
Lautoka City Council	<ul style="list-style-type: none"><li>• Annual Corporate Plan 2011</li><li>• Annual Corporate Plan 2012</li><li>• Contract Agreement</li><li>• Contract file</li><li>• Complaints register</li></ul>
Nadi Town Council	<ul style="list-style-type: none"><li>• Corporate Plan 2003 – 2012</li><li>• 5 Year Strategic Plan 2010 – 2014</li><li>• Contract file</li><li>• Complaints register</li></ul>
Nasinu Town Council	<ul style="list-style-type: none"><li>• Contract documents</li><li>• Payment vouchers to contractors</li><li>• Minutes of tender meetings</li><li>• Complaints register</li></ul>
Nausori Town Council	<ul style="list-style-type: none"><li>• Contract documents</li><li>• Payment vouchers to contractors</li><li>• Minutes of tender meetings</li><li>• Complaints register</li></ul>
Suva City Council	<ul style="list-style-type: none"><li>• Contract documents</li><li>• Payment vouchers to contractors</li><li>• Minutes of tender meetings</li><li>• Annual Corporate Plan 2010</li><li>• Annual Corporate Plan 2012</li></ul>

### KEY ELEMENTS OF CONTRACTUAL ENGAGEMENTS

Human resources play a critical role in the proper management of contracts within the Councils. As such the Councils should ensure that staffs have the capability to effectively administer activities relating to contractual engagements.

It is pivotal that tenders are called for all contracting works planned by the Councils. Tendering of such works clearly indicates transparency in the contractual engagements and ensures value for money is achieved.

All records that are created and received in contractual arrangements, whether paper based or electronic, should be captured in the Councils recordkeeping system. A systematic approach to recordkeeping at the beginning of the contractual engagement and throughout the contracting cycle will assist the Council to provide evidence of business conducted and decisions made, manage legal and other risks, and meet its accountability obligations. As such, keeping good records should be seen as an integral part of, rather than incidental to, contracting activity.

Payment of contractors by the Councils should follow a proper process. The Councils should ensure that payments are made when works or services are conducted to the satisfaction of the Council and within the requirements of the contractual agreement.

#### **Human resources involvement in contractual works**

Staffs involved in contracting arrangements should have at a minimum a broad understanding of the policy framework as well as practical work knowledge of contracting practices that apply to the particular contracting activity in which they are engaged.

Technical expertise should be sought externally by the Council if it is not available in-house or if required.

#### **Technical expertise in the identification of contracted works**

The identification of works or projects to be contracted by a Council should follow a rigorous and detailed consultation and evaluation process. Technical expertise is critical in the identification of such works.



Under the current practice in most Council, the responsibility of identifying the contract of services is done by the different Departments within the Councils. It was noted that all works contracted out by the Councils were results of initiations proposed by the technical personnel in their various Departments.

The different projects contracted out by the councils are directly related to the various departments that exist within the Council. Tabulated below are the three main departments that commonly exist in most council with details of works to be contracted:

Table 5.1: Main departments in councils visited and works identified to be contracted out

<b>Department within council</b>	<b>Responsible Technical Personnel</b>	<b>Works usually identified by the department</b>
Health & Environment	<ul style="list-style-type: none"> <li>• Director Health Service</li> <li>• Senor Health Inspector</li> <li>• Health Inspector</li> </ul>	<ul style="list-style-type: none"> <li>• rubbish collection</li> <li>• transportation to the rubbish dump</li> <li>• Other hygiene service.</li> </ul>
Works	<ul style="list-style-type: none"> <li>• Director Engineering Service</li> <li>• Senior Engineer</li> <li>• Engineer</li> </ul>	<ul style="list-style-type: none"> <li>• Cutting of the grass.</li> <li>• Maintenance work on the roads.</li> <li>• Upgrading of public utility facilities e.g. picnic parks, walkways inside the town and city boundaries.</li> </ul>
Building	<ul style="list-style-type: none"> <li>• City/Town Planner</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance or repair of existing buildings.</li> <li>• Construction of new building.</li> <li>• Renovation and upgrading of buildings.</li> </ul>

Audit noted that for all Councils visited only Nausori Town Council did not have an Engineer and Health Head for certain period but there has been continuous project work on both departments contracted out indicating the absence of technical input in the identification of projects for contracted purposes for the two departments.

In the absence of technical expertise the Council may end up identifying the wrong projects to be contracted out which may result in the Council incurring additional costs on the specific work then that initially planned.

## Contract management skills and knowledge

A range of skills and knowledge are required throughout the contracting stages. The types of skills and knowledge required vary with the different stages of contracting services and with the size and nature of the services required. As such it is critical that officers of the Councils involved in managing contracts are appropriately trained in the areas of contract management.

The successful management of contractual works would generally require skills and knowledge in the areas outlined below:

Table 5.2: Contract management skills and knowledge

Skills and knowledge	Details
Interpersonal and relationship	<ul style="list-style-type: none"><li>• Undertake tasks in a motivated and professional way</li><li>• Build strong relationships.</li><li>• Encourage co-operation and communicate orally in writing.</li></ul>
Project management	<ul style="list-style-type: none"><li>• Plan, schedule, organize work, manage tasks and consult with stakeholders</li><li>• Establish relationships to get tasks done in a timely way.</li></ul>
Managing contractors	<ul style="list-style-type: none"><li>• Understand tender criteria and evaluations</li><li>• Able to understand and ensure compliance of contractual agreements.</li></ul>
Performance measurement	<ul style="list-style-type: none"><li>• Provide feedback both positive and negative</li></ul>
Problem solving	<ul style="list-style-type: none"><li>• Have positive approach to solving problems</li><li>• Encourage mutual co-operation to address issues</li><li>• Have the ability to make decisions in circumstances where there may not be full knowledge of all relevant facts in the available timeframe</li></ul>

It was noted that the Councils officers involved in the contract works process generally lack some of the skills and basic knowledge of contractual works. Officers in charge of handling tenders have not undertaken any formal training on contracts management and/or tender process including monitoring of contractual works.

Training of officers on contract management has the potential to ensure proper and effective



management of contracts by officers of the Councils.

### **Tendering of contractual works**

The Councils should ensure that tenders are called for all contracting works/services. Tendering of such works indicates transparency in the contracting services and allows the Councils to secure the right contractor to carry out the work.

A proper and transparent process should be in place governing the evaluation of tenders. This requires the existence of a proper evaluation criteria and transparent evaluation of all tender proposals.

It is also important that the Councils maintain proper documentation to evidence all activities relating to the contractual engagement.

### Responsibility of evaluating and approving tenders

To ensure transparency in a Council setting it is important that the responsibility of evaluating tenders and approving tender allocations are conducted by two separate parties.

Scrutiny of the tender minutes in most Council revealed that Council officials made up the committee members that make decisions on the opening and vetting of tenders received. The members of the committee mainly comprise of Heads of Departments (HODs) who are also the parties responsible for proposing works to be contracted.

Audit further noted that in most of the Councils visited the Heads of Departments are also the main party regarded as the Council that deliberate on the awarding of tender. Refer to the following table for details:

Table 5.3: Details of tender deliberations

<b>Municipal Council</b>	<b>Details of tender deliberations</b>
Ba	Council has two meetings. The first meeting is the tender committee meeting where they analyse and prepare a report on the applicants. Tender reports is discussed in the staff and tender board meeting The final approval is sought from the council meeting and once approved the approved tender letter is issued to the successful tenderer.
Lami	The tender committee analyses the tenders and submit the report either to the ordinary council meeting before its onward

	submission to the full council meeting.
Lautoka	Tender committee opens the tenders which comprises of the Heads of Sections who analyses the applicants and a report is prepared during the Development and finance committee meeting. Once they approve on the tenderer the final approval is sought from the full council meeting before the tender letter is being issued.
Nadi	Two meetings are conducted. First meeting is the tender committee meeting where they open the tender box and analyses the applicants. Once the report is presented either the following meetings the Development, Finance or Engineering depending on the nature of the tender.
Nasinu	<p>The Council has two separate meetings held to discuss the tender for contracts.</p> <ul style="list-style-type: none"> <li>• The first meeting is called "<i>Opening of Tender Documents Meeting</i>" where there is no restriction to the members of the Committee and any of the TC officials present at the meeting can chair the meeting.</li> <li>• The second meeting is made up of the individual Department's "<i>SubCommittee Meeting</i>" where the Special Administrator usually chairs the meeting.</li> </ul>
Suva	<ul style="list-style-type: none"> <li>• The day and time a tender closes a meeting is held where the tenderers and public are present as well. The staffs from S.C.C are present including Directors of each section, City Lawyer, Administration Secretary and the Special Administrator. Tenders are opened and announced. As soon as the bids are announced the meeting ends.</li> <li>• All the tenders submitted are evaluated on the documents furnished. This is discussed in the monthly council meeting held each month.</li> </ul>

The above observations question the independence of the tender committee and the ultimate awarding of tenders.

### **Evaluation and documentation of tender**

The evaluation of tender responses is the most important aspect of the value for money consideration. As such it is essential that decisions should be taken strictly on the basis of evaluation criteria to appropriately evaluate tender responses and justify selection of the



successful supplier. .

Tenders should also be evaluated by an officer competent to do so. Where expertise is not available within the Council for evaluation of tenders, local and/or overseas consultants, if necessary, will be engaged to evaluate tenders, local and/or overseas consultants, if necessary, will be engaged to evaluate tenders.

Appropriate documentation tender evaluations should be made to ensure that the process has been adhered to in a transparent manner. Risk assessment also needs to be undertaken on tenders received.

The common tender evaluation criteria used by most the councils are that the lowest bidder usually awarded with the contract. However, the lowest bidder approach cannot be applied if there are high technical works that require high cost equipment and service providers. Our audit at the various Councils visited noted the following observations in respect to the existence of tender evaluation criteria: Table 5.4: Details of evaluation criteria

Councils	Councils Existence of documented tender evaluation criteria?	Audit comments on criteria
Suva	Yes	<ul style="list-style-type: none"> <li>Criteria are quite limited and do not extend to include evaluation of the suppliers' experience, capability and capacity, technical support, evaluation of performances in engaged contract with the Council etc.</li> <li>No scaling and points allocation to each criterion.</li> </ul>
Lami	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nausori	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nasinu	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Lautoka	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Ba	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nadi	Yes	<ul style="list-style-type: none"> <li>Council has a detailed criteria in place outlining the following: <ul style="list-style-type: none"> <li>➤ Contract sum</li> <li>➤ Within approved budget</li> <li>➤ Performance if engaged in previous contracts with the Council</li> <li>➤ Insurance</li> <li>➤ Work knowledge and experience</li> <li>➤ Tools plants and machinery</li> </ul> </li> <li>Scaling and points system are applied to each criteria.</li> </ul>

In addition, the overall documentation of the tender evaluation was lacking in some of the Councils visited. Report summary on the tenders and their selection were not included in the file.

The absence of tender evaluation criteria in most of the Councils may indicate that the selection of a contractor with the most appropriate capability and capacity is not a priority in the allocation of tender. Furthermore, the lack of documentation in the evaluation process indicates lack of transparency and accountability in the tender process followed by the Councils.

### **Contractual agreement**

A formal contract for contractual engagement should be entered into with the Contractor who has been approved to carry out the contracted works.

Contractual agreements are legally binding and are drawn up to ensure that required works are carried out in accordance to its requirements. A contract is required where the nature of the relationship with the supplier involves the need to specify certain requirements that the contractor should be aware of.

### **Format and contents of the agreement**

When drafting a contract it is important to include clauses that protect the interests of the Council. These same clauses frequently also offer protection to the contractor.

Review of existing contractual agreements provided by the Councils visited found that all of the contracts included requirements covering insurance, liabilities and indemnities and payment arrangements. However a number of key items were not included as part of the contracts. Also most of the contracts did not have a proper format. Refer to the following table for details:

Table 5.5: Contract anomalies pertaining to format and contents of Councils visited

<b>City/Town Council</b>	<b>Contract (s) examined</b>	<b>Audit comments</b>
Ba	Ba Town Council and Lalesh Naidu trading as Laka Transport for the	<ul style="list-style-type: none"> <li>Contract is not appropriately divided up into different sections with specific headings.</li> </ul>



	disposal of garbage	<ul style="list-style-type: none"> <li>• A number of key items are not included as part of the contract. The items include:</li> <li>• Contract variations - formal procedures specifying the mechanism to be used if the contract needs to be varied.</li> <li>• Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> <li>• Termination and contract end dates provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>• Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> </ul>
Lami	Lami Town Council and Construction Equipment Hire Limited for the Back fill and leveling of Tikaram Park	<ul style="list-style-type: none"> <li>• Contract is not appropriately divided up into different sections with specific headings.</li> <li>• A number of key items are not included as part of the contract. The items include: <ul style="list-style-type: none"> <li>➤ Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> <li>➤ Termination and contract end dates - provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>➤ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> </ul> </li> </ul>
Lautoka	Lautoka City Council and Ambika Nand for grass cutting and cleaning of drains in Waiyavi Ward Area „B"	<ul style="list-style-type: none"> <li>• The General Condition of the Contract is not appropriately divided up into different sections with specific headings. The Special Condition of the Contract is divided up into sections.</li> <li>• A number of key items is not included as part of both the General and Special Condition of the contract. The items include:</li> </ul>

		<ul style="list-style-type: none"> <li>➤ Contract variations - formal procedures specifying the mechanism to be used if the contract needs to be varied.</li> <li>➤ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> <li>➤ Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> </ul>
Nadi	<p>Nadi Town Council and M.Y.Azaad Transport for the collection and removal, cartage and disposal of garbage at LCC"s rubbish dump.</p>	<ul style="list-style-type: none"> <li>• A number of key items are not included as part of both the General and Special Condition of the contract. The items include: <ul style="list-style-type: none"> <li>➤ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> <li>➤ Termination and contract end dates - provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>➤ Penalties - penalties for contractor underperformance.</li> </ul> </li> </ul>
Nasinu	<p>Nasinu Town Council and Kinoya Old Boys Association Company</p> <p>Limited for the grass cutting on road side and cleaning of drain.</p> <p>Nasinu Town Council and Waste Clear Fiji for the collection or garbage and removal to Naboro landfill.</p>	<ul style="list-style-type: none"> <li>➤ The contracts are appropriately divided into sections with specific headings. Apart from the confidential information clause the contracts include all other key requirements.</li> </ul>
Nausori	Nausori Town Council and Viti e Loma Youth	<ul style="list-style-type: none"> <li>• The three signed contracts all have different formats.</li> </ul>



	<p>Club for the raking and maintaining the drains, mowing the lawns and road verges.</p> <p>Nausori Town Council and e-Care Environmental Consultants for the initial environmental examination.</p> <p>Nausori Town Council and Tahila Group for the prefeasibility study for the proposed relocation of the market and transport terminal</p>	<ul style="list-style-type: none"> <li>• The General Condition of the first contract did not divide requirements into sections and with separate headings. The Specific Condition divided up requirements into sections and under separate headings.</li> <li>• The first contract did not specify confidential information and termination, penalties and contract end dates requirements.</li> <li>• The second contract did not specify confidential information, disputes and penalty requirements.</li> <li>• The third contract did not specify contract variation and penalty requirements.</li> </ul>
Suva	<p>Suva City Council and Constructive Builders for the construction of compost site building</p>	<ul style="list-style-type: none"> <li>• Contract is not appropriately divided up into different sections with specific headings.</li> <li>• A number of key items are not included as part of the contract. The items include: <ul style="list-style-type: none"> <li>➤ Disputes - requirements on both parties if a dispute arises during the performance of the contract.</li> <li>➤ Termination and contract end dates provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>➤ Confidential information- clauses relating to how confidential information is to be identified, dealt with and returned on</li> <li>➤ completion of the contract.</li> </ul> </li> </ul>

The non-inclusion of several key requirements in the existing contracts by most of the Councils indicates that their interests may not be adequately protected in the contractual arrangements.

#### **Vetting of contracts by a solicitor**

As contracts are legal documents it is pivotal that all contractual agreement between a

Council and its contractors are vetted by a solicitor.

Our review of the contracts entered into by the Municipal Councils revealed that some of the Councils do not have their contracts with the contractors vetted by a solicitor. Refer to the table below for details.

Table 5.6: Details of contract vetting by a solicitor.

<b>Councils</b>	<b>Contract vetted by solicitor?</b>
<b>Ba</b>	No as the contracts are on-going
<b>Lami</b>	Yes
<b>Lautoka</b>	Yes
<b>Nadi</b>	No
<b>Nasinu</b>	Not vetted by solicitor despite having a legal section in the Council
<b>Nausori</b>	No legal section to vet contracts but Council outsourced any legal service required
<b>Suva</b>	Yes vetted by the city solicitor

Non-vetting of contract agreements by a solicitor could expose the Councils to future lawsuits.

### **Contractor engaged and re-engaged through a formal letter**

Upon expiration of a contract the terms and conditions of the existing contract should be reviewed before the contract is renewed. Also the contractor's performance should be appropriately evaluated before the decision of extension of the contract is made.

It is important that a contract is drawn up and signed by both the Council and the contractor before the services are rendered or continued to be rendered.

The audit found that contractual agreements between the Lautoka City Council and two contractors had expired and the contractors were informed through a letter to continue



providing the service without the contract being renewed.

In addition the audit found that Nasinu Town Council engaged a contractor without a contractual agreement signed. The contractor was only provided with the letter indicating award of contract. The following table provides further details of these engagements:

Table 5.7: Anomalies noted in the existing contracts

Council	Contractor/Services	Remarks										
Lautoka City Council	Sheik Mohammed cleaning of the Park	Contract expired on Jan 10th 2014 and the Council vide letter dated 3rd Jan 2014 to continue until 29th June 2014.										
	Ravindra Kumar  Collection and disposal of refuse	Contract had expired on 10th Jan 2013 and the Council advised the contractor to continue till Feb 1st 2013 and then continue till June 2013 where a new contract was later awarded to the supplier.										
Nasinu Town Council	Hire of Truck – Collection and disposal of garbage – A Kumar Transport	<p>No contract was developed for this contractor. On 13th May, 2011, the Nasinu Town Council provided a letter to acknowledge the receipt of A Kumar Transport tender and also on the same letter agree to award him with the contract. For the past 3 years, Nasinu Town Council has paid A Kumar Transport with the following amount:</p> <table><tr><th>Years</th><th>Amount</th></tr><tr><td>2011</td><td>124,825</td></tr><tr><td>2012</td><td>106,000</td></tr><tr><td>2013</td><td>125,712.50</td></tr><tr><td>2014 (First 4 Months)</td><td>113,755</td></tr></table> <p>The total amount paid annually to this contractor is substantial when compared to the total budget of the council e.g. in 2014, the</p>	Years	Amount	2011	124,825	2012	106,000	2013	125,712.50	2014 (First 4 Months)	113,755
Years	Amount											
2011	124,825											
2012	106,000											
2013	125,712.50											
2014 (First 4 Months)	113,755											

		Health Service Department have been allocated with \$978,700 but within the first 4 months, the Nasinu TC has paid almost 12% of its total annual budget allocation to the contractor.
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## **Records Management**

Records management is crucial to all organisations unless to account for what has happened in the past or to make decisions about the future. Records are a vital, corporate asset and are required:

- to provide evidence of actions and decisions;
- to support accountability and transparency;
- to comply with legal and regulatory obligations, including employment, contract and financial law,
- to support decision making;
- to protect the interests of staff and other stakeholders.

Recordkeeping involves making and maintaining complete, accurate and reliable evidence of business transactions and is primarily the responsibility of all staffs within an organisation.

### **Maintenance of file on contractual works**

A file should be maintained for all tenders received in respect of what the tender is for and all the documented work carried out up until the tender is awarded. All the relevant supporting documents to substantiate the award of tender should be contained in the files.

Key documents that should be retained during the contract management phase and contained in the file include the following:

Copy of the contract signed by both parties

- Risk assessments
- Contract management plan or checklists
- Records of payments
- Records of performance
- Variations to the contract
- Assistance or expert external advice received



A review of the files maintained at the Councils revealed the following observations:

Table 5.9: Observations on maintenance of records by Councils

Council	Audit Comments
Ba	File maintained for the contracts but all the necessary information pertaining to the tenders not in the file. Papers filed in the files are not serially numbered.
Lami	File maintained but does not have all the necessary information pertaining to the tenders. Papers filed in the file are not serially numbered.
Lautoka	Files maintained for the individual tenders with contracts but the papers in the file are not serially numbered.
Nadi	Files maintained by the respective sections pertaining to the tenders of the contracts were given for audit. Record maintenance was poor. Papers filed in the file were not serially numbered.
Nasinu	No copies of contracts maintained by the Registry Section but maintained by respective Departments but not completed. The SA's secretary maintained all the minutes in regards to any contracts undertaken.
Nausori	The Accounts Section maintaining all the operational contract files whilst the big capital project contract files are maintained by the Project Manager. All the minutes are kept by the SA's secretary.
Suva	Files maintained for the individual tenders with contracts etc. Files are serially numbered. Documents filed in the file are not sequentially numbered.

It is important that the most up to date version of the contractual agreement incorporating any variations is appropriately maintained in the file as it provides the basis for making payments to the contractor.

In the absence of proper records there would be no clear trail of contractual activities undertaken and Council management would not be in a position to make timely decision regarding tender and contract engagements.

#### **Existence of contracts inventory and register**

Councils should compile a contracts inventory which lists and classifies all contracts. A

classification system must be established which identifies the classifications of contracts taking into account at least the contract type or nature, strategic importance of the goods and services, contract value, contract duration and contract complexity.

The contracts inventory should be entered into a register. A register containing all contracts of the Council should be maintained centrally and a number of sub-registers maintained by various departments of the Council that collectively represents the Council's contract register centrally maintained.

Our examination at the Councils visited found no existence of contract inventory. In addition all Councils visited did not maintain a contract register detailing all contracting works/service of the Councils over the years.

In the absence of a contract inventory Councils would not be in a position to adequately and efficiently establish the number of the contracting services they have engaged in.

The maintenance of contract register facilitates the effective monitoring of contract end dates and opportunities to exercise contract extensions.

### **Payments of contractors**

All payments authorised and payable to the contractor should be made strictly in accordance with the provisions of the contract.

The Council should ensure that payments are made to contractors after proper evaluation of work performed.

### **Controls in payments of contractors**

Internal controls can generally be classified under the headings of approval, authorization, verification, reconciliations, and segregation of duties, analytical review, physical controls, management controls, processing controls, computer controls and monitoring controls.

Before payment is made, a supplier invoice should be checked and approved by the person who placed the original order to ensure it shows: the correct goods, the correct quantity and correct price (including any agreed discounts).

Our review of the payment process revealed that all the Councils have a process in place for payment; however there were lack of general internal controls in most Council. Refer to the



table for further details.

Table 5.10: Details of internal controls on contractual payments

Councils	Process of Payments	Remarks on the internal control in payment process
Ba	Payments are made fortnightly for garbage collection services and weekly for security services.	<ul style="list-style-type: none"> <li>The Council uses MYOB for the payment process.</li> <li>The Department of Health signs on the invoice certifying the work have been done.</li> <li>No reports were provided to substantiate the verification done by the Department of Health.</li> <li>Copies of payment vouchers were not filed in the individual contract file.</li> </ul>
Lami	After completion of work invoices are raised and passed on to finance for payment.	<ul style="list-style-type: none"> <li>No evidence in the payment voucher to show that verification that the work was done according to the contract before payment is done.</li> </ul>
Lautoka	<p>After completion of work, invoices are raised and passed on to the finance</p> <p>Department to prepare the cheque. The cheque is then forwarded to the signatories for signing.</p>	<ul style="list-style-type: none"> <li>Payments are made after review of supporting documents, work done according to standard requirements, certification and authorization.</li> <li>For grass cutting contract inspection measurement form are filled by the Horticulture Department to indicate that the work has been done by the contractor and the garbage contract invoice are certified by the department of Health.</li> <li>No reports to substantiate the verification done by the Council.</li> <li>Copies of payment voucher not filed in the individual contract file.</li> </ul>
Nadi	The invoices are submitted by the Engineering and the Health Department signed off. Payments clerk prepare the payment vouchers and checks that the amount in the invoice matches the monthly contract amount to be paid to the contractor	<ul style="list-style-type: none"> <li>No supporting document is attached when the invoices are submitted to accounts.</li> <li>The accounts clerks always check for sign offs.</li> <li>Work done according to standard requirements is checked by the department concerned.</li> <li>When the invoices are forward Finance</li> <li>Department it is assumed that every process is being followed because the</li> </ul>

		<p>invoice is signed off which signifies that the invoice is ready for payment. Insufficient documentation to support the verification of the work done by the contractor.</p> <ul style="list-style-type: none"> <li>• No contract payment register to record payments made to the contractor.</li> </ul>
Nasinu	Invoices are first verified by the supervisors in the fields before cross checked by HODs and submitted to Finance Section for payments.	<ul style="list-style-type: none"> <li>• In some capital work constructions, members of the local communities near work sites were paid by the council to supervise the work on behalf of the council.</li> <li>• Documentation from the field officials is satisfactory.</li> <li>• Internal controls in the Finance Section are good.</li> </ul>
Nausori	Invoices are first verified by the supervisors in the fields before cross checked by HODs and submitted to Finance Section for payments.	<ul style="list-style-type: none"> <li>• The Council does not have the capacity to check or verify the capital projects works under ITP, thus the reliance on the project manager to verify on behalf of the council</li> <li>• The Council paid the Project Manager without any independent verification on the work undertaken by the Project Manager</li> </ul>
Suva	Any claims by contractors are checked before any payment is made. The percentage of work or schedule of works as stipulated in the contract must be completed for any payments are to be made. For grass cutting and drainage cleaning contracts, payments are made after reporting and validating officers check the areas. Then this is certified by the certifying officer. After all this then payment is authorized.	<ul style="list-style-type: none"> <li>• Ward inspectors check the respective works in the ward daily. Reports are prepared and sent to the Health Inspectors.</li> <li>• Internal controls in the Finance Section are functioning well as supporting documents are checked before payments are authorized.</li> </ul>

The payment process practiced by the various Councils is guided by the Manual of Accounts. Some of the Councils visited have also developed their policies including accounting manuals and procedures.

The non-compliance to the internal controls in place within the various Councils could encourage fraudulent practises amongst the Council officials.



### Deposit payments made by Suva City Council to Construction Builders

The Suva City Council entered into a contract with Construction Builders for the construction of Compost Site Building on the 31<sup>st</sup> of May 2013. The funding for the construction works was provided by the Japanese Embassy.

The contractual agreement between the Council and the contractor indicated provisions for progressive payments as follows:

“That the SCC shall pay consideration to the Contractor for its services in the total sum of Twenty Four Thousand dollars (\$24,000) inclusive of Value Added Tax. The consideration shall be paid in progressive stages payments as set out in the Schedule of payments and upon the completion of the contract having being satisfactorily performed of completion of the specified works and upon producing a Certificate of Practical Completion to that effect issued by the Director Engineering Services or his authorised representative.”<sup>1</sup>

The Schedule of payments included as Annexure C of the contract outlined the breakdown of the amount agreed between the two parties as follows:

Table 5.11: Contractual sum agreed

Description	Amount (\$)
Deposit	7,920.00
<ul style="list-style-type: none"><li>• Site clearance</li><li>• site layout and profiling</li><li>• footings and pad layout</li><li>• pole arrangement and filing concrete</li><li>• floor layout for shed</li><li>• floor layout for office</li></ul>	5,500.00
<ul style="list-style-type: none"><li>• Office layout</li><li>• Shed structure layout</li><li>• Shed roofing</li><li>• Shed finishing</li><li>• Office side wall fixing</li></ul>	7,200.00
<ul style="list-style-type: none"><li>• Office interior finishing</li><li>• Sink, WC, table, door fixing, window fixing</li><li>• Office painting</li></ul>	2,360.00

Finishing	1,020.00
<b>TOTAL</b>	<b>\$24,000.00</b>

Audit found that the Council made the deposit payment of \$7,920 to the contractor as stipulated in the contract. However, the contractor did not complete the work and the Council had to complete the project from where the contractor had left of. Our discussion with the Council management gathered that the reason the deposit payment was included in the agreement to be made were due to the following reasons:

- that it was required by contractors as a protection for non-payment; and
- suppliers may not have enough capital to purchase the item.

The Council's monetary calculation of the work conducted by the Contractor totalled \$5,278.59 indicating that the Council had been overcharged by \$2,091.41. Audit gathered that the amount was not re-imbursed by the Contractor to the Council. Our review of the contractual agreement found that such situation was not addressed in the contract. The Council however did not make any further payments to the contractor as stipulated in the contract.

The above deficiency indicates that the Council did not conduct a thorough evaluation of the Contractor's capability in terms of both financial standing and technical knowhow to effectively carry out the construction works.

## **MANAGING CONTRACTORS PERFORMANCE**

Performance management should be undertaken throughout the contractual stages. Performance management involves:

- Performance monitoring - collecting data on performance;
- performance assessment - deciding whether performance meets the organisation's needs; and
- taking appropriate action - understanding and extending features of good performance, correcting areas of under-performance or amending contract requirements to meet changing needs.

Along with performance indicators and standards, arrangements for monitoring and assessments should be set out and agreed in the contractual agreement along with action



that should be taken in instances of non-performance. Clear links should be established in the contractual agreement between payments for performance and the effect of non-compliance or under-performance on these payments and the intent to invoke penalties contained in the agreement if necessary.

Systematic monitoring underpins performance assessment and they do not occur in isolation from one another. In practice, performances are assessed and feedback and reports provided throughout the monitoring process.

### **Monitoring system**

Monitoring provides a means for ensuring that implementation goes according to plan. As such Councils should have a monitoring system in place to effectively monitor the work of contractors.

Effective monitoring should be reinforced by policies and procedures that present a framework for Councils to ensure that financial and operational performance of the contractual work is measured against established targets.

Different approaches to monitoring may be used at different phases in contract delivery or for particular aspects of performance. Whatever monitoring arrangements are determined they should be cost effective to implement and manage and the necessary skills should be available.

Audit gathered that the different Councils visited have different monitoring systems in place. The general observation on the monitoring of contractual works found that most Council have some system in place to monitor contractual works. However, the notable weakness in the Councils is the lack of a monitoring policy governing monitoring works of all their capital projects including projects arising out of contractual engagements.

Discussions with the officers at the respective Councils revealed that monitoring of contractors work were conducted on a regular basis. However, there were specific issues noted in relation to certain Councils which are detailed below.

Table 6.1: Monitoring of contractors' work

Council	Frequency of monitoring	Audit comments
Ba	Daily	No documented evidence of monitoring noted.
Lami	Daily	No documented evidence of monitoring noted.
Lautoka	Daily	No documented evidence of monitoring noted.
Nadi	Daily	No documented evidence of monitoring noted.
Nasinu	Daily	Field officers have log books which are cross checked with the invoice sent by invoices before submitted for payments.
Nausori	Daily supervision on operational contracts	Monitoring reports maintained by respective Department.
Suva	Daily	There are monitoring reports which is prepared when payments are made progressively. Records maintained by the Ward Managers on daily inspection.

The accepted practice utilized over the years requires that the respective sections document monitoring of contracted works under their department. However, as can be gathered from the table lack of proper documentation of monitoring works is still in existence in most of the Councils visited.

Lack of documentation of monitoring works may result in the Council's management not being able to make prudent and timely decisions on matters pertaining to contracted engagements.

#### **Monitoring of contracted works by an external party**

On the 20<sup>th</sup> of December, 2012, the Nausori Town Council entered into an agreement with a Consultancy Company namely G.A. Consultants Ltd, which acts as Project Manager on behalf of the Council. The Project Manager was engaged to monitor few of the Integrated Transport Project (ITP) contracts for the Council with the objective of achieving the Council's



scope, time, costs and other specified objectives.

Annexure C to the contract indicates the Council has engaged the services of the Project Manager at the agreed sum of \$110,000 (VEP).

The Project Manager monitored the work of five contractors. The following table summarizes the five contractors and the amount that have been paid by the Council to the various contractors for their contractual services as at the end of April 2014:

Table 6.2: Contractors monitored by the Project Manager with amount paid to them by the Council

<b>Contractors</b>	<b>Service provided</b>	<b>Amount Paid (\$)</b>
Ashok Balgovind	Architect	201,362.47
E-Designs	Geo Tech & structure	46,158.25
Erwin Alsop	Service Engineer	57,509.00
William & Associates Ltd	Quantity Surveyor	128,546.11
Ragwan	Construction	Not provided
Total		<b>\$433,575.83</b>

Considering the magnitude of the amount paid to the Project Manager the audit found the following anomalies in the engagement.

- the provisions in the Contract/Agreement have no requirements to compel the Council to monitor the work of Project Manager. Thus the Council did not verify the monitoring works conducted by the project manager.
- the contract did not include a requirement for reporting of results of monitoring by the project manager.
- payments were made to the project manager on the strength of the invoice without documentary evidence of monitoring works conducted on each of the five contractors

There is a risk that the Council may be paying more than the actual monitoring work conducted by the project manager.

## Evaluation of contract performance

An evaluation should be undertaken by the Councils at the end of the term of a contract. Contract evaluation should encompass the overall performance of the contractor and the Council. Such evaluation should be conducted so that any problems that have occurred with aspects of the contractual arrangement are identified and where appropriate, improvements made in future contractual arrangements.

To get the best out of the evaluation Councils should review all aspects of contract performance and its management, provide feedback to the contractor and identify lessons learnt. The evaluation should consider both the effectiveness and efficiency of the contractual arrangement.

A contract performance report should be prepared to evidence the evaluation results. In addition to specific requirements outlined in the contractual agreement the following table outline key activity where the evaluations should be concentrated.

Table 6.4: Key activities for performance evaluation

Activity	Details
Administration of contractual agreement	<ul style="list-style-type: none"><li>• Timely responses to correspondence between the parties</li><li>• Timeliness of any required approvals</li></ul>
Contract documents	<ul style="list-style-type: none"><li>• Clarity and adequacy of scope</li></ul>
Delivery of services	<ul style="list-style-type: none"><li>• Completion time</li><li>• Quality of work</li></ul>
Progress payments	<ul style="list-style-type: none"><li>• Fairness and reasonableness of claims</li><li>• Timeliness of payments</li></ul>
Claims management	<ul style="list-style-type: none"><li>• Processing of claims in a timely manner and in accordance with the contract.</li><li>• Assessment of claims was fair and reasonable.</li></ul>

Our examination found that none of the Councils visited conducted a performance evaluation of contractors upon expiration of the terms of their contracts on services rendered



to the Council. In addition audit found no evidence that any of the Councils prepared a contract performance report.

Conduct of evaluation and preparation of contract performance report would assist the Council in identifying areas for improvement for future contractual engagements.

Contractual agreement should generally contain provisions for monitoring progress and evaluation of the performance of a contractor. In this regard contracts should include provisions that cover the person responsible for undertaking performance monitoring including the responsibility for collecting and analysing data, the frequency of monitoring, the reporting arrangements; and any processes to review the performance of the contractor.

Our review of contracts gathered from various Councils visited gathered the following observations in respect to the integration of monitoring requirements.

Table 6.5: Details of integration of monitoring requirements in contracts

Council	Audit Observation
Nadi Town Council	Monitoring requirements, reporting arrangements and review process to review the performance of the contractor were not included in the contract.
Ba Town Council	Monitoring requirements, reporting arrangements and review process to review the performance of the contractor were not included in the contract.
Lami Town Council	<p>Clause 32 of a contract reviewed requires that routine inspections be carried out randomly by the Building Inspector and Work Supervisor of the Council with the representative of the contractor and a report to be submitted weekly to the Council.</p> <p>Contract however did not incorporate requirements to conduct overall evaluation of the contractor's performance.</p>
Nasinu Town Council	Clause 9 of a contract drawn by the Council incorporates performance and monitoring. The requirement includes identification of officer responsible for monitoring and reporting of contractor's performance. In addition the requirement provides that any deficiency identified should be brought to the attention of the Contractor and which should be rectified within 24 hours to the satisfaction of the Council but at the expense of the Contractor.

	<p>The clause however did not incorporate requirements on the frequency of reporting and processes to review the performance of the contractor.</p>
Lautoka City Council	<p>Clause 4.3 of the Special Conditions of Contract requires that the works shall be inspected by the Director Engineering Services or his representative and any shortcomings to be rectified within 24 hours. Inspection work required in the contract to be conducted daily for the duration of the contract.</p> <p>However, there is no specific requirement on the reporting of contractual works by the responsible officer. Also neither the general nor the special condition contract outlines requirements on the process governing evaluation of the contractor's performance.</p>
Nausori Town Council	<p>The special conditions under one of the three contracts examined included requirements on inspection of works to be conducted by the Field Supervisor of the Council or nominee and any short comings to be rectified within 24 hours or no later than 7 days. The frequency of inspection is also indicated under the condition.</p> <p>There is however no specification on the reporting arrangement and process to evaluate the Contractor's performance.</p> <p>The remaining two contracts did not provide any requirements on the monitoring requirements, reporting arrangements and review process of contractual arrangement to review the performance of the contractor.</p>
Suva City Council	<p>Clause 26 provide requirement for routine inspections to be carried out by the Engineering Department of the Council.</p> <p>There is however no specification on the frequency of inspection, the reporting arrangement and process to evaluate the Contractor's performance.</p>

The anomaly clearly indicates that the various Councils do not place emphasis on monitoring and evaluating performances of contractors once they are engaged.



## Managing complaints on contractors work

Complaints are an important way for the management for the Council to be accountable to the ratepayers as well as providing valuable prompts to review organizational performance and the conduct of people that work within and for it. As such Councils should maintain a register to record complaints from ratepayers for inadequate services conducted by contractors.

An effective complaint handling system provides three key benefits to an organization which includes the following:

- resolves issues raised by a person who is dissatisfied in a timely and cost- effective way;
- provides information that can lead to improvements in service delivery; and
- improve the reputation of an organisation and strengthen public confidence in an organization's administrative processes.

Complaint handling should have sound processes that embody the five fundamentals principles of fairness, accessibility, responsiveness, efficiency and integration as its basis. The aim is to ensure that complaints are dealt with efficiency and effectively and the clients have confidence in the Council's complaint system.

Our review gathered that except for Suva City Council all other Councils visited maintain a complaint register where all complaints raised concerning their operations are entered into. Such information entered into the register also includes complaints relating to contractors engaged by the Councils. In addition audit gathered the following findings in the management of complaints within the Councils visited.

Table 6.6: Monitoring of contractors' work

Council	Audit Comments
Ba	<ul style="list-style-type: none"><li>• The register was not appropriately maintained and updated on a regular basis.</li></ul>
Lautoka	<ul style="list-style-type: none"><li>• The Council carries out inspections, gives out notices and even takes legal action where necessary. When complaint is received by the ratepayer, an inspection is carried out and a notice sent. If there is still non- compliance, a second notice may be sent or legal action taken</li></ul>

	<ul style="list-style-type: none"> <li>Complaint register maintained however register was not updated in a timely manner.</li> </ul>
Nadi	<ul style="list-style-type: none"> <li>The Council informs the complaint about the processes and the cycle and the contractor is informed to address the complaint and if it is not done by the contractor the task is carried out by the contractor and the cost is deducted from the sum agreed to be paid to the contractor.</li> <li>The register was not appropriately maintained and updated on a regular basis.</li> </ul>
Nasinu	<ul style="list-style-type: none"> <li>Scrutiny of the complaints register revealed that the Council has been attending to the complaints received satisfactorily.</li> <li>Dates of complaints received and attended to with the details of work provided by the Council are provided in the complaints register.</li> </ul>
Nausori	<ul style="list-style-type: none"> <li>The Council maintains both a manual and electronic copy of complaints register. Audit review of both registers found that both registers were not updated on a regular basis.</li> </ul>
Suva	<ul style="list-style-type: none"> <li>When complaint is received by the ratepayers an inspection is carried out and a notice sent. If there is still non-compliance, a second notice may be sent or legal action taken.</li> </ul>
Lami	<ul style="list-style-type: none"> <li>Council has a register in place and is updated in a timely manner.</li> </ul>

It can be noted from the above table that some Councils do not update the status of the complaints raised.

The non-update of the complaints register disallows the Council from establishing the effectiveness and efficiency in addressing complaints.

None of the Councils visited have developed a policy governing the management of contractual engagements. Most the Councils visited were following tender procedures outlined in the Manual of Accounts for Municipal Councils in Fiji which was endorsed in 1992. Detailed planning of outsourced services were lacking in six of the Councils visited. Further to this risk assessment of contractual activities were not conducted by all the Councils visited.

Generally records maintained on activities relating to contractual engagements needs to be improved. It is pivotal that contract files contain information relating to tender evaluations, contractual agreement, correspondences between the Council and the contractor and other key activities of the engagement. Equally important is the compilation of contracts inventory and contracts register to evidence the contracts undertaken by the Councils over the years.

There is also a need to separate parties currently involved in the evaluation and approval of



tender proposals to ensure transparency in the tender process. The criteria for tender evaluation is also lacking in most of the Councils. Contractual agreements being entered into by most of the Councils needs to be reviewed to incorporate other key items highlighted in this report. A few of the Councils also need to have their agreements vetted by a solicitor. Stringent controls also need to be put in place to ensure payments made to contractors are within the requirements of the contract agreement.

Some evidence of monitoring of contractual engagement was noted to have been conducted by most of the Councils; however there have been lack of proper documentations to indicate the results of monitoring works. This anomaly was mainly attributed to the absence of a monitoring policy in place and non-specification of monitoring requirements in the contractual agreements. The evaluation of the contractors' performance and preparation of a contract performance report was not conducted by all the Councils. Such is the case mainly due to the non-inclusion of the requirement in the existing contractual agreement.

### **COMMITTEE RECOMMENDATIONS**

#### **Policy Framework Governing Contractual Engagements**

All Councils should have documented contract policy in place to assist them in managing contractual engagements. PAC has noted that in all the Councils that were audited, none of them had a standard policy guideline in place.

##### **Recommendation 1**

PAC is recommending that the Department of Local Government should develop a standard policy guideline for all the Municipal Councils. This will ensure an open and transparent process in engaging and scrutinizing contractors.

##### **Recommendation 2**

PAC is recommending that the Department of Local Government should review the existing 1992 Manual of Accounts used by the Councils to reflect changes and development in the Councils.

##### **Recommendation 3**

PAC recommends that the Department of Local Government should review the existing 1992 Manual of Accounts to include risk assessment of all contractual activities.

## **Key Elements of Contractual Engagements**

PAC further recommends that all Councils should:

### Recommendation 1

Ensure that staff involved in contractual works is adequately trained with the appropriate skills and basic knowledge of contractual engagements.

### Recommendation 2

Create contracts inventory to identify control management at the various levels of the contracts undertaken.

### Recommendation 3

Ensure independence and transparency in the allocation of tender. All Councils should ensure that the authorizing party making the decision of tender allocation does not entail all officers included as the members of the tender committee. The authorizing party should include:

- the Special Administrator;
- the head of the section whose services is required to be contracted;
- the head of the Finance section; and
- two representatives from the ratepayers.

### Recommendation 4

Ensure that proper documentation is maintained to adequately reflect tender evaluations.

### Recommendation 5

Ensure that key items specified in this report are integrated as part of their existing contractual agreement.

### Recommendation 6

Ensure that proper records are maintained to evidence activities relating to contractual works. Files should be appropriately numbered for ease of reference.



#### Recommendation 7

Ensure that a contract inventory is maintained which should be entered into a register. The contracts must be classified in terms of contract type or nature, strategic importance, contract value, contract duration and contract complexity. The register should be updated on a regular basis as and when contracts expire or new contracts are entered into by the Council.

#### Recommendation 8

Ensure that stringent internal controls are in place on the payment of contractors. Payments made to contractors should be properly supported with relevant documentations. Proper documentation should be maintained to evidence payments made.

#### Recommendation 9

All Councils should ensure that at all times a qualified Engineer and Health Head are recruited by the Council to facilitate proper identification of projects contracted out.

#### Recommendation 10

Develop tender evaluation criteria for use when evaluating tenders received such as:

- International certification;
- Proven track record;
- Financial standing; and
- List of fleet of Mechanical equipment

### **Managing Contractors Performance**

PAC recommends that all Councils should:

#### Recommendation 1

Ensure that a monitoring policy is developed which should include monitoring of contractors' work. The policy should cover amongst other things requirements of documentation of monitoring activities. Such policy once developed and endorsed by management should be strictly complied with by the Councils.

#### Recommendation 2

Ensure that an overall evaluation of a contractual arrangement is undertaken following

expiration of the contract. A contract performance report should be prepared to detail the results of the evaluation.

Recommendation 3

Ensure the proper documentation of complaints in the complaints register. The register should be updated on a regular basis such that the Council is aware of the status of complaints at a particular point in time.



## Management of Multilateral Environmental Agreements

### Background

Multilateral Environmental Agreement" or MEA is a broad term that relates to any of a number of legally binding international instruments through which national governments commit to achieving specific environmental goals. These agreements may take different forms, such as "convention," "treaty," "agreement," "charter," "final act," "pact," "accord," "covenant," "protocol," or "constitution" (for an international organization). Put simply an MEA is a legally binding instrument between two or more nation states that deals with some aspect of the environment

The Department of Environment is the focal agency for these agreements and is responsible for the administration and implementation of these agreements. The department with its stakeholders plays the pivotal role in coordinating and managing strategies for ensuring the effective implementation and compliance to the requirements of the conventions.

Since environmental issues entered the international agenda in the early 1970s, global environmental politics and policies have been developing rapidly. Global environmental governance can be defined as —the sum of organizations, policy instruments, financing mechanisms, rules, procedures and norms that regulate the processes of global environmental protection. Multilateral Environmental Agreements or —MEAs are one of the most prominent features that regulate this process.

MEAs are a subset of the universe of international agreements. What distinguishes them from other agreements is their focus on environmental issues, their creation of binding international law, and their inclusion of multiple countries. Multilateral environmental agreements is a broad term that relates to any of a number of legally binding international instruments (such as convention, treaty, agreement, charter, final act, pact, accord, covenant, protocol, or constitution) through which national governments commit to achieving specific environmental goals. MEAs are international treaties signed by two or more nation states to deal with environmental issues crossing national boundaries.

Multilateral environmental agreements are legal instruments with binding effects on countries that have agreed to become parties to a particular agreement through ratification or accession.

As a principle of international law, MEAs (as with other international agreements) usually bind only those States that have agreed to be bound by the MEA. However, an MEA can affect non- Parties, for example by prohibiting or restricting trade by Parties with non-Parties.

For the countries which have only signed and not as yet ratified, they are nonetheless expected not to do anything that will affect the aims and purposes of the MEA. They are not declarations of intention or avowals (which are non-binding); they are rules of law. As such, they are a powerful tool for the implementation of policies directed at environmental protection and sustainable development goals. MEAs must conform to international public law (as must all international instruments of this type). Legally binding and non-legally binding agreements come in many shapes and forms. They can inter alia be of the following types or denominated as follows:

Table 2.1: Types of MEAs (legally or non-legally binding)

<b>Legally binding (MEAs)</b>	<b>Non-legally binding</b>
Treaties	Resolutions
Conventions	Decisions
Agreements	Declarations
Protocols	Recommendations
Accords	
Pacts	
Charters	
Amendments	

MEAs may be between two States, in which case they are usually termed —bilateral. However, most MEAs are between three or more States, and thus —multilateral. [For the purposes of this Primer, MEA includes bilateral agreements]. MEAs are multilateral in the sense that they involve many nations. However, for the purposes of this Primer an MEA can be any treaty between two or more nation-states if and when this instrument deals with direct environmental objectives.

### **Key benefits of an MEA**

The key benefits of an MEA are usually environmental, but may also be economic, sociopolitical (e.g., empowering the public to become involved), and administrative. The clearest benefits of any particular MEA usually relate to the specific goals of that MEA.

In addition to there are some general benefits of ratifying, implementing, complying with, and enforcing MEAs — and costs associated with not complying. Refer to the following for details:



- **Protecting Public Health and the Environment:** MEAs have a range of environmental and public health benefits, the specifics of which vary from MEA to MEA and State to State. These benefits tend to be both short- and long-term.
- **Improving Governance:** In addition to providing substantive norms of environmental protection, many MEAs improve environmental governance, as well as generally promoting transparency, participatory decision making, accountability, and conflict resolution. Moreover, MEAs often seek to avoid or limit resource-driven conflicts by promoting equitable arrangements, for example regarding access to fresh water within an international watercourse basin.
- **International Political Comity and Respect:** Most MEAs address environmental and public health challenges that are shared by many nations. Many nations contribute to the problem, and many suffer the consequences. Sometimes, they are the same nations; sometimes, the States causing the harm are different from those most affected.
- **Solidarity:** States may wish to become a Party to an MEA to support other States in the environmental challenges they face. In such instances, the particular goals of the MEA might be noble, worthy, and of great importance to other States (for example in the same region), but may be a lower domestic priority.
- **Financial Assistance:** Often, a State needs to be a Party to an MEA in order to access funding from the MEA Secretariat, multilateral sources and certain bilateral sources. Moreover, if a State is not complying with an MEA, this could jeopardize existing funding.
- **Technical Assistance and Networking:** In addition to financial assistance, MEAs often facilitate technical assistance, for example through technology transfer. Additionally, MEA Secretariats often build capacity of governmental authorities to implement the MEA by fostering regional and global networks through which members share experiences.
- **Long-term Economic Benefits:** Analyses by the OECD, the World Bank, and others indicate that in many instances it is economically preferable to develop within the context of environmental regulation. Otherwise, States frequently have had to make large expenditures to redress environmental and public health consequences of environmental neglect. Thus, while the priority of many States may be on development, participation in MEAs can enhance the long-term sustainability of development initiatives.
- **Trade:** In certain instances, MEAs contain provisions that impose obligations on Parties vis-à-vis their trade with non-Parties.
- **Facilitating Changes in Domestic Environmental Law:** While environmental problems may be evident, a Government or Parliament may be reluctant to develop the necessary laws and institutions to address the problems.

As a party to multilateral environmental agreements, Fiji is required to comply with certain requirements of such Agreements. Poor implementation, monitoring and enforcement of multilateral environmental agreements requirements imply non-compliance which may have legal implications for the country.

Furthermore, non-compliances may lead to criticisms from other international governments which can undermine Fiji's credibility and erode the willingness of other governments to take action on other, unrelated matters such as trade, development, security, or social issues. In addition, Fiji's inability to comply with both national and international reporting requirements may affect the availability of future funding and hinder the successful implementation of projects and activities under respective MEAs.

### **AUDIT FINDINGS**

The overall objective of the audit is to assess the efficiency and effectiveness of focal and implementing agencies in implementing multilateral environmental agreements by examining:

- implementation arrangements in place for honouring requirements of MEA, and
- accountability and reporting relationships including the effectiveness in monitoring implementation.

#### **Absence of adequate implementing legislation for MEAs**

There are currently 10 multilateral environmental agreements being implemented by the Department of Environment. Audit established that only four out of the ten environmental agreements currently implemented are supported by enabling legislations. Out of the remaining six MEAs implemented without supporting enabling legislations, three MEAs are implemented on the provisions of other legislations. Listed in table 4.1 below are MEAs implemented with relevant supporting legislations.

Table 4.1: MEAs implemented and their supporting legislations

MEAs	SPECIFIC LEGISLATIONS	AUDIT COMMENTS
Convention on Biological Diversity	No specific legislation	The convention relies on several pieces of legislations that cover different aspects of conservation and sustainable use of biological resources. These legislations include the Endangered and Protected Species Act 2002, Environment Management Act 2005, Fisheries Act Cap 158, Forest Decree 1992, Land Use



		Decree 2010, and Ozone Depleting Substances Act 1998.
Cartagena Protocol on Bio safety	No specific legislation	The convention is legislated through the Biosafety Promulgation 2008, Food Safety Act 2003 and, Customs Act No.11 of 1986 Rev. 2010, Customs Regulations 1986.
Convention on international trade in endangered species of wild Fauna and Flora (CITES )	<ul style="list-style-type: none"> <li>• Endangered and Protected Species Act 2002 (enforced in 2003)</li> <li>• Endangered and Protected Species Regulations 2003</li> </ul>	The EPS Regulations is in the process of being reviewed. Legislation is currently with Solicitor General's Office for the review of fees charged to traders for the registration of companies trading endangered species.
Ramsar convention on Wetlands	No specific legislation	The Convention relies on the Environment Management Act 2005 for its implementation. Appropriate legislation is yet to be developed.
Vienna convention on the protection of the ozone layer	<ul style="list-style-type: none"> <li>• Ozone Depleting Substances Act 1998</li> <li>• Ozone Depleting Substances Regulations</li> </ul>	The ODS Act 1998 is currently being reviewed.
Montreal Protocol- substances that deplete the ozone layer		
Stockholm Convention on Persistent Organic Pollutants	<ul style="list-style-type: none"> <li>• Environment Management Act 2005</li> <li>• Environment Management (Waste Disposal and Recycling) Regulations 2007</li> </ul>	Reliance is also placed on the following pieces of legislation: <ul style="list-style-type: none"> <li>• Health and Safety at Work Act 1996 – for registration of industrial chemicals</li> <li>• Pesticides Act 1971 – registration of pesticides</li> <li>• Public Health Act 1937 – management of public health</li> <li>• Pharmacy and Poisons Act 1985 – registration, control, distribution and sale of pharmaceuticals</li> </ul>
Waigani Convention	No specific legislation	
Apia Convention	No specific legislation	
Noumea Convention for the Protection of natural resources and environment of the South Pacific	No specific legislation	

The absence of national laws has hindered the effectiveness of implementation of Conventions. For instance, the lack of legislation to support implementation of the Waigani Convention hinders the effective monitoring and enforcement of trans-boundary movement of hazardous waste.

In addition, reports submitted have also reflected this deficiency. For instance the 2012 RAMSAR national report to the COP 11 meeting in Romania disclosed that the absence of specific legislation for the RAMSAR convention has duly led to the deterioration in the national state of Fiji's only wetland site.

The principal legislations were also lacking in defining key elements of managing MEAs. For instance, although the Environment Management Act 2005 and Environment Management Regulations 2007 are the principal legislations for the Stockholm Convention, responsibilities of the DOE with regards to POPs management are not clearly defined. Although the Stockholm convention also requires the development of legal and administrative arrangements to reduce or eliminate releases from the intentional and unintentional production and use of POPs chemicals outlined in Annex A – Annex C of the Convention, audit noted that the banning and control of all chemicals listed in the Stockholm Convention were not stipulated under the Environment Management Act and Regulations despite these laws being the governing legislations.

### **Absence of standard operating procedures**

As the focal point to 10 international and regional environmental agreements, the DOE is responsible for the effective management and implementation of obligations under the respective agreements. Activities and programs are undertaken by the six main business units of the Department, namely:

- the Education and Awareness Unit
- the Resource Management Unit (RMU)
- the Environment Impact Assessment Unit (EIA)
- the Waste Management and Pollution Control Unit (WMU)
- the National Ozone Depleting Substances Unit (NOU) and;
- Corporate Support Services

However, the day to day management of the respective agreements is the responsibility of the WMU, RMU and NOU as outlined in table 4.2 below.

Table 4.2: Responsible Units for Managing MEA's within DOE

<b>Business Unit</b>	<b>Relevant Conventions</b>
Resource Management Unit [RMU]	<ul style="list-style-type: none"> <li>• Convention on Biological Diversity</li> <li>• Cartagena Protocol</li> <li>• CITES</li> <li>• Ramsar Convention on Wetlands</li> </ul>
Waste Management Unit [WMU]	<ul style="list-style-type: none"> <li>• Stockholm Convention</li> <li>• Waigani Convention</li> </ul>



	<ul style="list-style-type: none"> <li>• Noumea Convention</li> </ul>
National Ozone Depleting Substances Unit [NOU]	<ul style="list-style-type: none"> <li>• Montreal Protocol</li> <li>• Vienna Convention</li> </ul>
No allocated Unit	<ul style="list-style-type: none"> <li>• Apia Convention</li> </ul>

There were no Standard Operating Procedures in place for eight out of the ten agreements i.e. CITES, Stockholm, RAMSAR, CBD, Waigani, Apia, Noumea and Cartagena protocol. Only the Vienna and Montreal Protocols had SOPs providing guidance on the clearance of imported and exported ODS commodities and equipment containing ODS.

### Existence and adequateness of national plans for implementing MEAs

The development of NIPs usually follows a consultative, participatory, multi-stakeholder process. This is usually coordinated by the Department of Environment through the appointed steering committees. Audit found that fifty percent of the agreements managed by the Department of Environment did not have appropriate plans/strategies in place to ensure they are effectively implemented. Refer table 4.3 below for details.

Table 4.3: Policies, Plans and Strategies for the Implementation of MEA's

Multilateral Environmental Agreement	Obligation To Develop Plan		Strategies/Plans in place	Audit Comment
	Yes	No		
Montreal Protocol		<input type="checkbox"/>	<ul style="list-style-type: none"> <li>• Methyl bromide Phase out Management Plan</li> <li>• CFC Phase out Management Plan</li> <li>• HCFC Phase out Management Plan</li> </ul>	The Methyl bromide Phase out Management Plan and CFC Phase out Management Plan has been completed. Department through the NOU is currently implementing the HCFC Phase out Management Plan.
Vienna Convention	<input type="checkbox"/>			
Convention on Biological Diversity	<input type="checkbox"/>		<ul style="list-style-type: none"> <li>• National Biodiversity Strategy and Action Plan 2007 (NBSAP)</li> <li>• Implementation Framework 2010 - 2014 for the National Biodiversity</li> </ul>	Upon expiry of the NBSAP implementation framework in 2014, another project is underway for its review. This project is known as the NBSAP Add on Project funded by UNDP

			Strategy and Action Plan	
<b>Cartagena Protocol</b>	<input type="checkbox"/>		No policy or plan currently exists	The National Bio Safety Framework is currently being drafted and yet to be approved.
<b>Convention on International Trade in Endangered Species of wild Fauna and Flora (CITES)</b>		<input type="checkbox"/>	No specific policy, plan or strategy is in place.	Management of CITES is conducted through EPS Act and Regulations however, strategies have also been incorporated into the NBSAP IF 2010 – 2014 under thematic area 5 for species conservation.
<b>Ramsar Convention on Wetlands</b>	<input type="checkbox"/>		Regional Wetland Action Plan for the Pacific Islands 2011 - 2013	Strategies and actions are also incorporated into the NBSAP IF 2010 – 2014 under thematic area 7 for Inland Waters. The National Wetland steering committee is in the process of identifying other wetland areas after which appropriate policies and plans will then be developed.
<b>Stockholm convention</b>	<input type="checkbox"/>		National Plan for Implementation of the Stockholm Convention on Persistent Organic Pollutants in Fiji Islands 2006 (NIP)	The NIP for the Stockholm convention outlined action plans for the years 2006. The NIP became out-dated after 2007 and no other strategies and NIP's have been developed since then.
<b>Waigani Convention</b>	<input type="checkbox"/>		No specific policy or plan in place to deal with the trans boundary movement of hazardous waste	Despite the NSWMS acknowledging Fiji's membership to the Waigani convention, the strategy does not outline specific objectives, activities, roles and indicators required for monitoring and evaluation of implementing the Waigani Convention.
<b>Noumea convention</b>	<input type="checkbox"/>		No specific policy, plan or strategies in place	
<b>Apia Convention</b>		<input type="checkbox"/>	No specific policy, plan or strategies in place	



The National Implementation Plan for the Stockholm Convention has been out-dated since 2006. No other policies, plans or strategies were in place to outline activities required for the effective management of POPs as required by the Stockholm convention.

Furthermore, as required by the Environment Management Act 2005, DOE under the Waste Management and Pollution Control Unit was required to *establish the National Chemical Management Plan based on the National Chemical Profile*. No chemical management plan has been prepared to ensure the sound management and disposal of chemicals in Fiji.

Interview with the responsible officer noted that implementation of the Stockholm convention had ceased after the completion of the POPs project in 2006. The absence of an officer to manage the convention and the failure to review and update the NIP contributed to the failure to appropriately implement the convention. Audit however, noted that in 2013, the updating of the NIP has been approved and included as one of UNEP's regional project.

The Review of the NBSAP Implementation Framework 2010–2014 also noted that the framework failed to clearly identify indicators for each action, thus there was no basis of identifying the effectiveness of monitoring and evaluating the implementation of actions indicated under various thematic areas.

#### **Diversion of funds provided for the implementation of the NIP for the Stockholm Convention**

A national implementation plan for the Stockholm convention was developed and approved by Cabinet for implementation in 2006. The plan was developed with the financial assistance from the Global Environment Facility and provided a number of specific action plans with specific goals and objectives that reflects the requirements of the Stockholm convention. Implementation of the plan was undertaken from 2003 to 2006.

In 2007 subsequent to the completion of the POPs project, tasks related to the management of the Stockholm convention were absorbed into the Waste Management and Pollution Control Unit. No funding was provided for the management of the convention for the years 2007 to 2009; however from 2010 government allocated \$80,000 annually for the national implementation plan of the Stockholm convention.

Despite the funding provided by government to the DOE for the NIP of the Stockholm convention, no commitments were made for the review and update of the national implementation plan. The Committee however noted that these funds were used for other purposes not related to the intentions it was specifically allocated for, as reflected in table 4.4 below.

Table 4.4: Diversion of funds allocated for the NIP for the Stockholm convention

Year	Payment Description	Amount (\$)	Voucher No.
2013	Air fares for Minister & Acting Deputy Secretary to India	20,745.00	031693
2013	Provision of Transportation during the Pacific Island Conference	4,914.45	034617
2013	Purchase of Air Tickets for Minister – Travel to Nairobi for UNEP seminar	9,784.00	031093
2012	Air tickets for Minister and PS travelling to Nairobi, Kenya 17/02 – 27/02/12	26,575.90	025604
2012	UN Sustainable development Conference Per diem allowance– Honnin Kwonsing	15,926.64	027273
2012	Air tickets – India Trip: Taina T and Sarah T	13,419.00	029086
2011	Air Fare for Fiji Delegation to the Solomon Islands – Pacific Expanded Constituency Meeting	6706.40	023606

The Department failed to appropriately monitor and report on the progress made with regards to the implementation of the convention for each year budget was provided.

#### **Alignment of MEA implementation activities and targets in organizational plans**

Alignment of organisational goals from its strategic plan through to individual work plans are important to ensure agreement obligations are effectively met.

Audit review of the agency's annual corporate plans found that strategies relating to the implementation of environmental agreements were not clearly defined for the years 2011 and 2013 despite being indicated as one of the agency's output. The 2012 ACP however, clearly outlines the Department's outputs, strategies, KPI's, targets and relevant timelines for each of the agreement managed by the DOE.

Furthermore, despite the identification of the management of regional and international Conventions as one of the outputs in the agency's annual corporate plans, audit noted that business plans failed to clearly define outputs and activities related to the management of the Stockholm, Waigani, Noumea and Apia Conventions to ensure they were effectively implemented.



However, strategies and activities with regards to the implementation of a number of agreements such as CITES, Ramsar convention, CBD convention, Nagoya and Cartagena protocols managed by RMU and the Vienna and Montreal Protocol managed by NOU were aligned to the outputs of the agency's corporate plans.

### **Public awareness and education on MEA obligations**

Audit noted that the Awareness and Education Unit has in place an Integrated Communication Strategy for the years 2010–2014<sup>11</sup> which integrates all education and awareness components of the DOE's sections/units and focuses on eight target areas, namely:

1. Information dissemination and technology
2. Formal education
3. Community awareness
4. Partnership and networking
5. Capacity building/ training
6. Coordinating and integrating
7. Media outreach
8. Informal education

Annual action plans are then developed from the strategy which outlines the specific activities, objective, target audience, method, responsibility, timeline and budget for respective target areas. Audit noted that no action plans were developed for the years 2011 and 2013, however annual reports prepared for the respective years noted that education and awareness were conducted for the Vienna convention, Montreal Protocol, Ramsar convention, CITES and CBD. Education and awareness include trainings and presentations provided to stakeholders, meetings with local communities, media outreach through television broadcasts, talk back shows and development and updating of the CHM website.

The Committee noted that awareness activities were not conducted for a number of conventions namely the Stockholm, Waigani, Apia and Noumea conventions, for the years 2011 to 2013. These were attributed to lack of policy support and coordination hindering the effective implementation of each agreement.

### **Review of National Measures in implementing MEAs**

Audit found that reviews on implementation of the agreements managed by DOE were adequately conducted for CBD, CITES, Ramsar, Vienna Convention and the Montreal Protocol. These reviews were conducted through annual review meetings between relevant stakeholders, internal ad hoc meetings by Unit staff and through the meeting and Conference of Parties.

The Committee noted that national review of the remaining five agreements (Stockholm, Waigani, Cartagena, Apia and Noumea conventions) was lacking and which were attributed to the lack of implementation on each of the convention, out-dated plans and the lack of coordination between the relevant implementing agencies.

### **Lack of in-house and capacity building**

The Department of Environment has a total of more than 40 staffs who attend to the various conventions under their respective Units. This is an additional task to the current duties under their Units responsibilities as they don't have a fulltime officer attending to the work required under the Conventions. Respective units assigned for the respective Conventions are illustrated in Table 4.3 below:

Table 4.3: Units responsible for Conventions

<b>ODS Unit</b>	<b>Waste &amp; Pollution Unit</b>	<b>Resource Management Unit</b>
Vienna Convention	Stockholm Convention	Convention on international Trade in Endangered Species of Wild Flora and Fauna
Montreal Protocol	Waigani convention	Convention on Biological Diversity
	Apia convection	Cartegena and Nagoya Protocol
		Convention on wetlands of International importance - RAMSAR

### **Lack of technical knowledge and skills**

Audit gathered that whilst trainings are being conducted for the convention on biological diversity trainings in the other environmental agreements are not being done. Trainings and workshops are conducted at various intervals based on the necessity of parties in their various work programs. Staff who attend this training then share the information learnt with the staff in their sections.

### **Lack of manpower to handle tasks**

The Committee noted that there is no designated staff specifically assigned for the management of environmental agreements. However in addition to their normal work, DOE staffs are also required to undertake work related to the implementation of MEAs and ensuring that the requirements of Environmental agreements are complied with.



## **Recommendations**

The Department of Environment should ensure that:

- A gap analysis is conducted which includes the examination of all existing legislations supporting the implementation of respective agreements. Due considerations should be made for the development of specific legislations or, the review of existing mandates to incorporate provisions relevant to the effective achievement of obligations under each of the Agreements.
- Appropriate SOPs are developed to serve as an instructional resource that allows employees to carry out basic tasks in an efficient and effective manner. Communicating procedures that can easily be followed will ensure the attainment of consistent results contributing to the effective achievement of MEA obligations.
- Appropriate policies, plans or strategies for each agreement are developed in coordination with relevant stakeholders. Plans should clearly articulate the strategies, objectives, actions and indicators to allow monitoring and evaluation of each activity. Together with this, plans should also indicate the agency responsible for each activity to avoid confusion, overlap and duplication of duties.
- Conventions are implemented where funds are provided, and seek explanations from the line Ministry as to why funds were diverted.
- Goals and activities relevant to the effective management of MEA's are incorporated into all levels of the organisational plans and clearly communicated at all hierarchical levels.
- Education and awareness programs are well planned and coordinated. Adequate attention should also be placed on the obligations of the Stockholm, Waigani, Apia and Noumea conventions, whereby, awareness and education programs should be designed accordingly based on the individual needs of the respective Conventions.
- Proper review measures are in place for the Stockholm, Waigani, Cartagena, Apia and Noumea conventions. Reviews should be conducted on a defined periodic basis to ensure agreements are implemented in the most effective, efficient and economical manner.
- Additional staff are recruited to ensure that the obligations under each agreement is being adhered to, for enforcement of monitoring and to ensure compliance to the Convention.

## **Monitoring implementation of Conventions**

The Department of Environment as focal agency is responsible for the collation of data in coordination with relevant stakeholders. Audit noted that no Memorandum of Understanding (MOU) is in place between the DoE and the respective agencies except for the Montreal and Vienna Conventions. The DoE has an MOU with the NGOs and the Fiji Customs Authority for the two Conventions.

The Committee noted that meetings are being conducted with the DoE and the stakeholders via the various committees formed in respect to the various Conventions. These meetings convened between the DoE about the stakeholders discuss compliance issues, mechanisms and procedures regarding the Conventions.

A challenge faced by the DoE is that the Department is not always being involved in the initial stages of negotiation but once things are formalised then the DOE is being informed to draw up policies needed for the conventions without being a party to the discussion from the beginning.

The communication lines are not clearly defined thus posing a lot of problems amongst the stakeholders.

Audit gathered from discussions held with officers responsible that the monitoring of the implementation of the Conventions is a challenge for the Department Of Environment as it is quite huge to monitor and its scope quite difficult to define. Monitoring the implementation of conventions is also hindered by a lack of resources and manpower. Audit noted that the current staffing levels are not sufficient to enable efficient monitoring.

### **Internal Reporting**

The DOE normally prepares Cabinet Papers for internal reporting purposes to Government. The existence of internal reporting process exists for Biodiversity whereby a reporting mechanism has been developed (national process) plus at intervals the MEAs themselves require parties to submit national reports which are undertaken through a consultative process.

The other Conventions have yet to establish a reporting process. The DOE is required to submit for Cabinet's endorsement reports describing compliance with the MEA requirements which are to be forwarded to the respective Convention Secretariats. It is also required to provide and update to Cabinet through its line Ministry undertakings from meetings attended. Table 5.1 reflects responses on whether the monitoring units within DOE are submitting reports to Cabinet prior to and after attending meetings.



Table 5.1: Submission of reports

Conventions	Submissions to Cabinet	Frequency of reporting
Ramsar Convention on Wetlands	Yes	Before CoP meeting
Waigani Convention Stockholm Convention SAICM	Reports were prepared back in 2006 through the POPs Project Unit and submitted to Cabinet. However, from 2007 till to date, the unit is not aware of any reports prepared and submitted to Cabinet after COPs.	Seldom
Vienna Convention and Montreal Protocol	No, only the focal agencies prepare reports as and when the need arises.	Based on national importance which requires policy directions for the country or submission to Cabinet for information purposes. For example, any changes to the Conventions, strategies that needs to be implemented, etc.
Convention on Biological Diversity	Yes in the past we have submitted reports on biodiversity and also for various other work programs emanating from the convention	Based on the need or when there is something that needs to be drawn to Cabinet's attention such as important national reports, national consultative summaries, meetings etc.
CITES	Yes	Before CoP Meetings

During the course of audit it was also revealed that most of the reports and papers prepared for submission to Cabinet have been misplaced due to the many relocations of the DoE's office and a lack of storage space to properly store the Department's documentary records.

### External Reporting

The DOE as the focal agency for most of the Conventions is required to submit reports to the Secretariat of each respective Convention. The reports are discussed at the CoP meetings held for each Convention.

The reporting requirement and reporting format for reports submitted to CoPs varies amongst the Conventions because of the nature of information each MEA seeks from the Parties. The formats of the reports submitted to CoPs for each of the Conventions are

standardised and members are obligated to comply with the reporting requirements. However the reporting submission timelines are not always being adhered to by the DOE as the lead agency for these agreements. Listed in Table 5.2 below are reports submitted to the Secretariat of the various Conventions.

Table 5.2: Reports submitted to the Secretariat of the various conventions

Conventions	Reports submitted to CoP
Convention on Biological Diversity	<ul style="list-style-type: none"> <li>• 4th National report submitted on 8/7/10</li> <li>• NBSAP implementation framework – 7/8/12</li> <li>• 2nd national report – 15/5/01</li> <li>• 1st national report 7/1/98</li> <li>• NBSAP</li> </ul>
Cartagena protocol	<ul style="list-style-type: none"> <li>• Report was due on 11 September 2005 Fiji is yet to submit a Report</li> <li>• The meeting of the parties to the protocol (COP-MOP) adopted a reporting format and requested parties to submit reports every 4 years but in the initial 4 year period to submit an interim report after every 2 years after entry into force of the protocol. The first report was due on 11 September 2005 and the first regular national report was due on 11 September 2007</li> </ul>
Nagoya Protocol	<ul style="list-style-type: none"> <li>• Protocol is still new and hasn't submitted a report as yet</li> </ul>
CITES	<ul style="list-style-type: none"> <li>• Article VIII para 7 says that each party is to submit Annual Report on its CITIES trade containing summary of information. The annual reports submitted are for 2007- 2011.</li> <li>• The party is also required to submit Biennial Reports which is yet to be submitted</li> </ul>
Ramsar	<ul style="list-style-type: none"> <li>• National report 2008 COP meeting</li> <li>• National Report for Fiji to the 4th Oceania Regional meeting for RAMSAR</li> </ul>
Montreal & Vienna Convention	<ul style="list-style-type: none"> <li>• Country Programme Report submitted to Multilateral Fund Secretariat and Article 7 Report to the Ozone secretariat. This reporting is mandatory that determines the compliance and funding release of countries. Reporting is done on an annual basis on the 1st of May each year and Fiji started reporting as far back as 1986.</li> </ul>
Stockholm Convention - SAICM	<ul style="list-style-type: none"> <li>• Not aware of meeting reports prepared by the former Director or by Ministry of Labour as there were no proper handing over of meetings attended and/or reported.</li> </ul>

Audit was not able to obtain most of the reports from the DOE due to unavailability of records at the DOE, thus the other reports were obtained from the Conventions' respective websites.



Copies of the report were not always maintained by the Department of Environment and which were aggravated by the fact that no proper handing over was done when staff moved out of the Department of Environment.

### **Participation in international and regional meetings**

The Committee noted that attendees submitted their reports for meetings attended except for those attending the Strategic Approach to International Chemicals Management (SAICM23) meetings. Reflected in table 5.5 below are responses to whether reports were submitted for attendances at meeting and the dissemination of outcomes of meetings.

Table 5.5: Feedback to questionnaire on whether reports were submitted

<b>Convention</b>	<b>Report submitted</b>
Ramsar Convention on Wetlands	Yes
Waigani Convention Stockholm Convention SAICM	Not aware of meeting reports prepared by the former Director or by Minister of Labour as there were no proper handing over of meetings attended and/or reported.
Vienna Convention and Montreal Protocol	Yes, reports are prepared and sent to Public Service Commission to the Permanent Secretary of the Ministry on the outcomes of each respective meeting.
Convention on Biological Diversity	Yes, the report is sent to management for information, PSC and also shared with stakeholders on important matters
CITES	Yes reports are prepared

The DOE only maintains copies of reports on meetings attended by the DOE staff. Reports on outcomes from the SAICM meetings attended by the Ministry of Labour officers were not produced for audit scrutiny. Audit was not able to obtain confirmation on the issue from the Ministry of Labour despite follow ups with the Principal Technical Officer OHS.

### **Dissemination of outcome of meetings and conference of parties**

Meetings are held with respective stakeholders to deliberate on issues discussed at the meetings of conference of parties. Stakeholders include Government Ministries and departments, non-government organisations (NGOs), tertiary institutions, oil companies, and statutory bodies i.e. Fiji Islands Revenue and Customs Authority (FRCA) and Bio Security Authority of Fiji (BAF). Stakeholders are then required to proactively implement requirements of the Convention.

Responses to questionnaire issued regarding regularity of meeting with stakeholders are tabled in table 5.6 below.

Table 5.6 Dissemination of Information

Conventions	Frequency of meetings	Issues discussed	Do the agency conduct meetings to discuss the Issues deliberated from the meetings of COP?
RAMSAR	Biannually	<ul style="list-style-type: none"> <li>• Ramsar site</li> <li>• Management plan</li> <li>• Information sheet on the Ramsar site</li> </ul>	Yes
Waigani Convention Stockholm Convention	No meeting has taken place for the past 8 years on the outcome of COPs.	No meeting has taken place for the past 8 years on the outcome of COPs.	No meeting has taken place for the past 8 years on the outcome of COPs.
Vienna Convention And Montreal Protocol	During contact group meetings, side- events and bilateral meetings especially for OEWG and MOP.	Normally, a Conference Room Paper[CRP] by concerned party is circulated for discussion during the contact group meeting while the outcomes of side- events that are relevant to the focal agency is included in its respective reports.	Yes, the outcomes are disseminated within the Ministry as well as the respective stakeholders.
Convention on Biological Diversity	Biodiversity Stakeholders meet at least 4 times in a year apart from the smaller working groups that meet more often, at least once in 2 weeks (These meetings have different focus but same groups)	The DOE is the Secretariat and makes minutes for all these meetings. Issues of concern on various thematic areas that have been derived from these MEAs such as for CBD on the 7 thematic areas of NBSAP.	Yes, for the CBD there is always a national standpoint, national priorities discussed before and after the COP's. COP deliberations, discussions and resolutions play an important role in national meetings.
CITES	Quarterly	Thematic 5 and Issues on the Endangered species	Yes

From the analysis above it can be seen that the only Conventions that has not met with its stakeholder for the past 8 years is the Stockholm Convention which needs to be



strengthened to ensure that they are made aware of the progress of the implementation of the Conventions.

### **Maintenance of a database to provide information on environmental agreements**

A database should be created and appropriately maintained to provide an efficient information network nationwide for the environmental agreements. The database should be coordinated to enhance its ability to monitor and control and also ease the work in the assessment of the implementation stages of the Conventions.

The information should include among other things, the number of reports issued, awareness programs made in respect to the conventions, the level of compliance in respect to the requirements of the convention, the number of stakeholders and their roles in the implementation of the conventions. The database should also include the number of meetings attended, trainings, workshops conducted and the dissemination of outcomes of meeting with the stakeholders.

The Department of Environment does not have a database on the multilateral agreements that the Department is the focal agency of.

### **RECOMMENDATIONS**

The Department of Environment should ensure that:

- an effective monitoring strategy to include the frequency of monitoring as well as the roles and responsibilities of respective officers is developed.
- effective coordination is being maintained to ensure that there is no duplication of work amongst stakeholders;
- documented copies of the reports sent to the Cabinet, Convention Secretariats, etc; are maintained and filed in the relevant subject files maintained for each convention for records purposes and for ease of reference, and for ease of work of new staff assuming roles of reporting on the conventions
- reports are consistently prepared including the compliance reports on the conventions.
- a copy of reports for attendances at meetings is being maintained in the respective subject file maintained for each Convention for ease of reference. This will also ensure that desk officers for the respective conventions are aware with the issues being deliberated at the meetings.
- outcomes of meeting are disseminated to all stakeholders so that all concerned parties are aware of the progress and the new challenges ahead of them in regards to the conventions.

- a database is established for effective sharing of information and for ease of reference.



## Management of Rural Electrification Program

### Background

Energy is of crucial importance for the socio-economic development of Fiji. Access to energy services has been identified as a necessary prerequisite for sustainable development, since it can lead to improvements in household health, education and income levels. Thus it's important to the public and government.

The Rural Electrification Program (REP) is a rural empowerment program, where the government through the Department of Energy, cost share with the recipient rural communities on the funding of rural electrification projects for their communities.

The programs were intended to support Government Rural Development policy aimed at improving living standards in the rural areas through electrification, so that disparity of living conditions between the urban centres and the rural areas can be reduced. It was also aimed at reducing rural urban drift of rural population

The great demand for electricity by rural areas in the early 1970s arising out of changing lifestyles and the desire for gaining a better standard of living for the rural population prompted Government to implement the rural electrification program. The rural electrification program was initially directed by the 1973 Rural Electrification Policy with the intention of improving the well-being of the rural population.

The REP is a rural empowerment program, where the government through the Department of Energy (DOE), cost share with the recipient rural communities on the funding of the REP for their communities. These programs were intended to support the Government Rural Development policy aimed at improving living standards in the rural areas through electrification, so that disparity of living conditions between the urban centres and the rural areas would be reduced. It was also aimed at reducing rural urban drift of rural population.

The RE Policy developed in 1973 provided for the implementation of the schemes based on a 2/3 contribution from the government and 1/3 (or 33%) from the local community. Under this arrangement the government owned the schemes and maintained them. This policy was restricted to the supply of stand-alone diesel generators with servicing carried out by the

DOE for an annual fee of \$100 from the community.

The Rural Electrification Unit (REU), a unit within the DOE was established to spearhead the implementation of the rural electrification projects aimed at equitable regional distribution of electricity and increasing rural electricity access to almost 100% by 2014 as per the 1993 RE policy. As of to date the estimated connectivity to electricity is 90%.

Energy is of crucial importance for the socio-economic development of Fiji. Access to energy services has been identified as a necessary prerequisite for sustainable development, since it can lead to improvements in household health, education and income levels.

Government has invested substantial amount of money in providing electricity throughout the country. Accessibility of electricity in the rural areas is challenging in terms of the cost involved. Budget provided to the Rural Electrification Unit and actual expenditure incurred for the REP over the past 5 years 2008 to 2012 are outlined in Table 2.1 below.

Table 2.1: Budget and actual expenditure for 2008 to 2012

Year	Budgeted Expenditure \$	Actual Expenditure \$	Savings \$
2008	6,000,000.00	5,337,238.85	662,761.15
2009	18,887,719.00	18,769,062.52	118,656.48
2010	5,892,405.00	5,723,004.57	169,400.43
2011	6,307,991.00	5,711,711.82	596,279.18
2012	6,963,460.00	6,963,035.68	424.32
Total	44,051,575.00	42,504,053.44	1,547,521.56

The above table shows significant amount spent on the alternative energy source and they managed to save in the past five years.

A performance audit on the topic has never been conducted. Annual regularity audits conducted and internal audits by the Ministry of Finance have raised numerous anomalies. Some of the major anomalies include paying contractors for incomplete projects; improper budgeting for the following year's project; villages and individuals not giving initial payment; procurement done without involving store man; splitting of payment vouchers for payments for projects; items not recorded in Fixed Asset Register and Expendable Items Register;



cannibalization of generators; late installation of generators after purchase; lack of REU database to record completed projects; tender procedures not followed; contract recommendation not made after each completed phase; inspection of projects not done after each phase; revision made to initial payment calculation; wiring on houses not done; and survey not properly carried out; etc.

Thus an audit of this topic would identify improvements for strengthening the management of rural electrification programme 2014.

The Rural Electrification Program is a development program that is influenced by several factors such as the regulatory and legal framework, involvement of various stakeholders, high dependence on socio economic factors, bureaucratic red tape and financial constraints. The management of such programs requires consideration of these factors within the project/program planning framework in order to achieve successful implementation.

A framework is necessary to define the design, planning, implementation and operations of rural electrification projects. The framework identifies the involvement of stakeholders, identifying responsibilities of all parties involved that may ultimately result in communities owning outcomes.

The Rural Electrification Policy (REP) developed and approved by Cabinet in 1993 provides the guidelines for electrifying rural areas. Under the policy any rural village or settlement is entitled to request government assistance for electrification.

Reviews of the 1973 Rural Electrification Policy in 1991 led to the development of the Rural Electrification (RE) Policy 1993. The aims of the RE Policy 1993 was to:

- a) electrify all rural villages within a period of approximately eleven years and number of villages to be electrified each year to be at least 90;
- b) have an annual programme of electrification for the above to be approximately \$6million per annum;
- c) develop rural electrification primarily for social development but economic development to also be promoted wherever possible;
- d) examine all existing and new types of electrification in the various areas of Fiji to find out their applicability;

- e) grouping areas close to the FEA grid into schemes and electrify through the extension of the grid;
- f) have consumers contributing 10% of the capital cost of installing an electrification project and 90% of the capital cost of the project to be met by Government;
- g) develop a user-pay system in the long term, and to have villages to be fully responsible for the maintenance, the repair and replacement cost of the electrification scheme after a grace period of 3 years from the date of the completion of the project;
- h) establish a Rural Electrification Unit to administer and control the rural electrification program; and
- i) have Government subsidizing house wiring for 3 villages to be connected to the Bukuya mini hydro scheme, and to supply surplus electricity from this scheme to nearby villages.
- j) Under the revised policy, the responsibility of planning and implementation of the Government rural electrification programme was shifted from the PWD to DOE. Contribution required from the local communities was reduced from 33% to 10% with Government being responsible for maintaining the schemes only for the first 3 years from installation, and ownership of the schemes being transferred to the local communities who would be responsible for the operations, maintenance and replacement of the schemes.

The policy aims at streamlining the provision of electricity services into the rural areas. However the methods of generation and supply of electricity have been expanded to include a wider range to choose from. The electrification options available under the 1993 policy framework include:

- (a) diesel scheme;
- (b) distributed solar scheme;
- (c) focal solar scheme;
- (d) hydro scheme;
- (e) connection to the FEA grid; and
- (f) connection to a Government power supply system



The RE Policy 1993 also provides for the establishment of the Rural Electrification Unit (REU) as well as guidance and instruction for the staff of the REU in facilitating the implementation of the RE Policy.

Audit was told there is a limitation to the policy and SOP in terms of achieving its goal. The goal of DOE is to have 100% electrification of the Nation by 2016 with 100 projects being implemented each year. However, with the existing RE policy not being reviewed and the program being customer driven, the target is somewhat difficult to achieve.

Although the policy and guidelines do not incorporate the current practices that have evolved since their development, the framework provides sufficient guidance to the REU in implementing the rural electrification program.

### **Implementing agency**

The Rural Electrification Unit within the Ministry of Energy and Rural Electrification administers and controls the rural electrification program. The Unit was established in 1993 following Cabinet approval 121(4) of 23 March 1993 under the Ministry of Lands, Mineral Resources and Energy and is currently a unit operating under the Department of Energy. Although the Department of Energy was responsible for overseeing the implementation of the RE policy from 1974 to 1993, the Public Works Department was responsible for the technical and practical activities of the projects until 2005. The Department of Energy took over full responsibility of the rural electrification project from the beginning of 2005.

### **Human Resources**

The Rural Electrification Unit set up within the Ministry of Energy and Rural Electrification to administer and control the electrification programme requires appropriately qualified persons. The revised RE Policy 1993 describes the proposed HR structure and requirements of the RE Unit. Based on the assumption that the Unit would be established as a statutory body, specialized posts were identified in the HR structure to enable efficient and effective management of the rural electrification projects for the different schemes implemented in the various regions. The proposed specialised positions included those of Manager of REU Regional managers – Vitilevu, Vitilevu- West, Kadavu, Savusavu, Lau; Senior Project Engineer; Senior Engineer Electrical; Supervisor Electrical; Technical Officer Electrical; Contracts Officer; Surveyor/ Estimator; Field Officers; and Stores Officer. However, audit noted that the proposed post and structure described in the revised policy has not eventuated. The proposed structure stated in the 1993 RE policy did not eventuate due to a lack of funding, thus the continued existence of the Unit as a government



department rather than a statutory body. With more than 20 years existence, the current DOE structure poses a constraint in terms of it adapting to changes or new innovations that have taken place in the energy sector both locally and globally.

The REU as at to date is established as a government unit under the Department of Energy and is therefore bound by General Orders and all the other relevant rules and regulations guided under the PSC regulations in terms of its HR establishments.

### **Planning for Rural Electrification Projects**

A plan in which the institutional, financial and technical aspects are covered is a precondition for successful and sustainable rural electrification activity. A plan consisting of a well-coordinated multiplicity of significant stakeholders from which all the financial and technical aspects are incorporated would facilitate for an efficient and effective national plan consisting of the identification of all the relevant resources that is required for the full implementation in the government objective.

During the planning of RE projects to be undertaken, the total number of projects to be assisted needs to be determined and a comparative analysis to determine the least cost of implementation should be carried out.

The Department of Energy is responsible for the overall energy policy and planning, promoting the development of renewable energy resources and renewable energy service companies (RESCOS), energy conservation and the coordination of rural electrification activities through the Rural Electrification Programme.

The rural electrification programme largely, provides a facility that enables rural communities to be provided or assisted with the provision of electricity. The rural electrification program is drawn on a yearly basis. According to REU the programme drawn is based according to a prioritized list and not on a planned list of a total number of communities that are yet to be electrified. The prioritised list includes only villagers or communities that have fully paid their contribution to the DOE. The programme is updated every year and submitted to the Ministry of Finance for approval.

The prioritized list is included in the PSIP submission to the Ministry of Strategic Planning. The Ministry of Strategic Planning vets the submission to ensure that it is consistent and in line with the national planning. Once approved by the MSNP it is submitted to the Ministry of Finance for inclusion in the REU budget.

### **Funding of REU programs**

In envisaging the accomplishment of the electrification of the country within a span of 11



years, Government allocates a budget of \$6.0 million per year for the purpose. However audit noted that actual funding over the years averaged at around \$3 million per year. Provided in Table 4.3 below is a summary of the budgetary allocation over the years from 1994 to 2013.

Table 4.3: Budget allocation for the years 1994 to 2013

Year	Amount (\$)	Number of village/settlement assisted
1995	1,000,000	35
1996	1,000,000	37
1997	1,000,000	31
1998	3,100,000	77
1999	3,280,000	135
2000	1,500,000	34
2001	3,000,000	86
2002	5,000,000	112
2003	6,000,000	140
2004	6,000,000	116
2005	6,000,000	101

2006	6,000,000	95
2007	6,000,000	129
2009	7,000,000	654
2010	7,700,000	700
2011	3,700,000	144
2012	10,000,000	In progress (~ 220)
2013	8,500,000	Data not provided to audit
TOTAL	84, 280,000	3,138

**Source:** 2012-2014 Public Sector Investment Program REU Project Documentation

Furthermore DOE confirmed that allocated budget for 2013 was not fully utilised. Even though projects had been committed, requests made to Ministry of Finance to enable payments were unsuccessful as funds were not available. Thus outstanding payments for 2013 would be drawn from the 2014 budget.

Inability to pay contractors in a timely manner instills vendor mistrust and contributes to deferment of completion of projects, and the inability of the Unit in accomplishing its planned outputs.

## AUDIT FINDINGS

The objective of the audit is to assess the efficiency and effectiveness of the management of the rural electrification program by examining:

1. the management framework for the rural electrification program;
2. the administration and implementation of the rural electrification program; and
3. the monitoring and inspection of projects under the REP.

### **Key findings**

1. There is no approval for variations in parts installed for solar systems and requirements



as per the Policy. Recoveries of monthly fees under the RESCO are not evident.

2. Recoveries of community contributions could not be ascertained.
3. Records maintenance and security of records is lacking. Monitoring and Inspection of projects under the REP.
4. Contradictory reports on inspections.
5. Improvements noted in monitoring processes include revision to regularity of contractual payment.
6. Monitoring activities are hindered by a lack of resources.
7. Monitoring and evaluation reports were not submitted for audit scrutiny.

Management of rural electrification program is adequately managed despite resource constraints. Legal and institutional framework exists to provide guidance on the proper implementation and management of the rural electrification program even though they may require reviews to keep them relevant and authoritative.

In addition, deviations in the administrative issues such as adherences to requirement of the application process, records maintenance, etc.; need to be strengthened to ensure accountability.

To ensure effectiveness of management of rural electrification program, audit recommends that the DOE review its current policy and guidelines to incorporate current practices to ensure its relevance and authoritativeness.

It should also ensure adequate resources are provided to enable efficient and effective program implementation and monitoring.

However, audit verifications of sample applications received noted that some applications did not have all the required supporting documents such as copies of Title/TNK Letter or birth certificate. In addition, sketches describing location or address of applicant were also not provided.

In addition audit noted that REU officers during their inspection found details provided in the application form that did not correspond with the situation.

The lack of documentation provided or the inaccuracy of details provided in the application forms imply an obvious weakness in the vetting process and the recording system which also has impacts on the Units resources such as time and money.

### Diesel generator scheme

Diesel generator is a single device that functionally converts diesel fuel into electricity. Requirements for installation of diesel schemes include the following major equipment items<sup>7</sup>:

Generator house; Wooden structured power house, Diesel engine driven generator, 240V 1-phase or 415V 3-phase 50 Hz, with starting system, fuel system and steel base frame, Underground cable distribution incorporating ground level distribution pillars and underground service cables to buildings.

House wirings; For each individual house, a wiring installation includes; 2 - 18W (2 ft.) fluorescent lights, 1-10A power point and a meter box with main switch and circuit fuses.

For one community hall, a wiring installation including appropriate lighting, 1-10A power point and a meter box with main switch and circuit fuses.

One 200 litre drums of diesel fuel to commission the diesel generator.

These generator systems are also required to be housed in a well-ventilated and shady area.

Audit noted during its site inspection that the generator schemes installed had the basic equipment required which complied with the above requirements. Equipment's were also provided with adequate shelter.

### **Utilization of diesel schemes**

New applicants requesting for assistance under the Rural Electrification Policy 1993, and villages/ communities assisted under the program prior to 1993 can opt for electrification through the following means:

1. an upgrade with the existing diesel scheme or
2. renewal energy or
3. the grid extension

According to DOE, diesel generators were once the preferred source of generating electricity in past years for rural villages because of its cheap price. However the prevailing high costs of fossil fuel costs have impacted much on rural communities using diesel generator



operated schemes. With most of the rural electrification project sites situated in the outer islands and the interiors of Viti Levu and Vanua Levu, rural communities not only have to pay for the expensive diesel fuel but also for the transportation costs of carting the diesel fuel from the urban centres to their villages. Some remote interior villages have to use various modes of transportation just to transport fuel, that is, by foot, horseback, boat, and/or vehicle to their villages, thus purchasing fuel is quite an expensive exercise for such communities.

From discussions with Turaga ni Koro of villages assisted with diesel generator schemes, audit noted that not all villages fully utilize their diesel generator system. It was revealed that villages would operate their generators for only two to three hours a day or only on special community occasions or village functions. This is mainly attributed to the high costs of fuel.

Apart from environmental considerations, Government is promoting the use of renewable energy to reduce the nations reliance on diesel and other carbon based fuels that are imported.

The DOE is currently converting existing diesel generators to run on biofuels or pure coconut oil. Discussions with DOE revealed that installations of generators with dual oil filters where both diesel and bio fuel can be used have been installed in villages on outlying islands.

Since under the current revised policy villages and/or communities are not permitted to request for an upgrade to other alternative scheme, some villages would not be able to fully utilise their schemes because of the high cost of fuel thus defeating the objective of the government initiative.

### **Solar Scheme**

Solar radiation can be used to generate electricity either through photovoltaic (PV) or thermal technology. The Government through DOE utilizes PV systems technology under the Solar Home Lighting Systems (SHS) project for providing electricity to rural areas in Fiji.

The Solar PV systems convert sunlight directly into electricity using solar cells. The size of the solar system and available sunlight determines how much electricity is available for use.

The typical solar home system consists of a panel, a collection of solar cells where the more light that hits a cell, the more electricity it produces, a battery for storing the energy generated during the day, a battery charge controller to avoid excessive charging and discharging and fluorescent lights.

### **Installation of equipment**

Under the 1993 RE policy the solar scheme should include the following major equipment items for each individual household: Solar panels installed on a wooden pole with adjustable tilt brackets, Two 11W and one 7W fluorescent lights, One 12V lead acid battery, One battery controller

From site visits conducted, audit noted that selected items currently installed varied from equipment requirements described in the 1993 RE policy. The Department has been installing such equipment since 2005 and not as per the requirements of the 1993 RE policy.

Audit could not ascertain whether variations in equipment requirements as per the Policy and those installed from 2005 are authorized since endorsements for variations were not provided for audit verification.

### **Installation arrangements–Renewable Energy Service Company (RESCO)**

Under the solar based rural electrification scheme, equipment is owned by Government, but is installed and maintained by a private company selected through competitive tendering.

According to DOE, remote villages and settlements that cannot be connected to the FEA grid and houses that are located further apart are given the option for solar home lighting system (SHS).

The aim of the scheme is to remove the high upfront capital costs associated with solar technologies and encourages public private sector partnership for maintenance. Each user pre-pays a monthly fee that covers the maintenance and component replacement as well as the initial capital cost. Audit noted that a household pays an initial deposit of \$50, thereafter renting the SHS for a monthly fee of \$14, which is paid at the local post office in return for a token that must be entered into the SHS prepayment meter. This amount is supposed to cover all maintenance costs and 5 percent of the capital cost of SHS, consistent with Fiji's Rural Electrification Policy. The Department then pays the RESCO approximately \$10 per month for each household under its maintenance contract. Payments to the RESCO are made every two months, during which time the RESCO is expected to visit every household with an SHS once.

Scrutiny of documents revealed that the upfront cost of installing each system per household varied from \$2742.67 in 2008, then increased in 2009 to \$2944.47 and decreased again to



\$2700 in 2012 to 2013.

Villages/ communities having solar systems are required to pay \$14 each month to assist with funding of maintenance of equipment. However, audit noted that the villagers/ communities have stopped paying their \$14 monthly subscription due to the prepayments machine not working and certain equipment gone bad and have not been replaced. Without the monthly rentals payments the government would not be able to sustain the projects.

### **Community Contribution**

Once the survey has been completed, the community is informed of the contribution that they have to pay. Upon payment of the contribution the scheme is placed on the Departments priority list in terms of actual construction or assistance to the scheme.

In order to maintain fairness, consistency, and also ensure that the rural electrification funds are put to optimum utilization, a ceiling or maximum allocation of \$4000 per customer is being used as a guideline for those aspiring to be supplied with electricity from the FEA power lines. Schemes having total costs below the maximum allocation of \$4000 / customer are considered viable and customers are required to pay 5% of the total costs with Government funding the remaining 95%. Schemes having total costs above the maximum allocation of \$4000 per customer require communities to pay the difference whilst the Government would provide the maximum assistance of \$4000 per customer.

During its verifications, audit could not establish whether customers assisted under schemes costing more than the maximum allocation had paid the differences in costs as required under the policy since no records reflecting these were provided for scrutiny.

Amounts exceeding approved maximum allocation for the above schemes which have to be repaid by customers totalled \$1,321,759.70. The amount if not reimbursed would incur an unauthorized additional cost to Government. Sum over-expended has impinged on the authorized budget and could have been utilized for implementation of other schemes.

### **Records Maintenance**

Audit noted that the subject files maintained do not provide an adequate audit trail. For example, contract document files provided for audit verification only contained contract agreements and did not contain evaluations for successful tenderers, considering that the tenders were of significant amounts. Audit was not able to ascertain the basis of decisions

on the awarding of tenders to Powerlite Generators Fiji Limited for the supply and installation of solar systems in 2012 for 1,693 houses worth \$5,491,500, and in 2013 for 1,233 houses worth \$3,638,500. The lack of audit trail hindered audit verifications.

It was also observed that there was no security over files maintained and that they were accessible to all persons entering the REU section. A scrutiny of the subject files maintained revealed some subject files did not contain all relevant documents.

The current lack of security over records maintained poses a risk over records being manipulated or getting lost.

#### Data Recording

Currently the REU does not maintain a database as required under the SOP but maintains records of projects in an excel spread sheet. However, items in the spreadsheet are not recorded in a systematic manner and do not contain all the information pertaining to a project such as contractual amount, the individual contractors that were awarded the various works required under a project, detail of total cost identifying the community's contribution and governments contribution.

A total of 2,604 schemes have been implemented since the inception of the policy in 1994 to 2010.

A breakdown of number of schemes implemented from 1994 to 2010 is outlined in table below.

#### **Number of schemes implemented from 1994 to 2010**



Year	FEA-connected scheme	Diesel Scheme	Solar Scheme	Hydro Scheme	Government Station Extension	Total
1994	5	9	4	1	0	19
1995	10	20	4	1	0	35
1996	17	17	3	0	0	37
1997	16	12	1	0	2	31
1998	38	39	0	0	0	77
1999	56	75	1	3	0	135
2000	19	14	1	0	0	34
2001	52	33	0	1	0	86
2002	52	58	2	0	0	112
2003	60	79	0	0	1	140
2004	68	42	6	0	0	116
2005	80	11	10	0	0	101
2006	55	30	8	0	2	95
2007	96	33	0	0	0	129
2008	251	15	7	0	0	273
2009	495	15	142	0	2	654
2010	117	10	402	1	0	530
TOTAL	1,487	512	591	7	7	2,604

**Source: 2012-2014 Public Sector Investment Program REU Project Documentation**

The Unit however was unable to provide audit with data for the years 2011 to 2013 due to misplacement of records, indicating a nonchalant attitude towards record keeping and its significance. Thus, audit was not able to establish the number of schemes implemented for the years 2011 to 2013.

Audit understood from discussions held with the OIC REU that a submission was made by

the REU for the purchase of a database but which was withdrawn. The GTB did not approve the tender as the Information Technology and Computing (ITC) Services was not consulted on the intended purchase. No further information was given to audit on the status of the process on acquiring the Units database.

The use of a database as a records management tool would benefit the Unit as it maintains high volumes of records which contain significant information that not only convey how public funds are expended but also funds that need to be recovered back by government. It also allows for ease of access to information required.

In addition incomplete data provided limits sufficiency of information available to decision makers to make well informed decisions.

### **Public Awareness Activities**

The DOE should conduct public information and outreach awareness by public education and awareness campaigns and upload the requirements and guidelines on the DOE website. Audit noted that the public information and outreach by REU is inadequate. The only information DOE has is placed on its website. The villagers/individuals interviewed during the inspection of REP projects revealed that they were not aware of DOE's Rural Electrification Projects. Inadequate awareness campaigns on rural electrification activities leave an information gap which hinders the rural population from taking on the program initiatives.

### **Completion of projects**

The overall objective of the Rural Electrification Policy 1993 is to provide electricity primarily for social benefit to all rural residents in Fiji. It is the intention of government that social benefit of electricity shall be made available to all rural areas in the shortest time possible. This means that social benefit of electricity is provided to as many villages and settlements as possible within the bounds of funds allocated annually by government or aid.

Audit verifications for projects completed from 2010 to 2013 revealed the following discrepancies: there was no list of applicants for the number of houses in the scheme; and signed copies of contracts between the DOE and contractors were not in the file. Files only had unsigned copies.

Audit also noted that amendments to amounts quoted on the signed contracts were not



endorsed. For example, the amount quoted in the contract for the rural electrification of 100 houses for Viria Village & Settlement in Tailevu of \$21,338.19 was crossed off and altered to \$106,703.91 and amendment attributed to "typing error".

Contracts are documents which once signed are legally binding. Alterations require appropriate approval. 2014

### **Monitoring Resources**

Adequate level of resources should be in place to effectively monitor REU related activities.

Audit noted that the current level of staffs is not adequate to effectively monitor the REP even despite the merging of the Renewable Energy section with the Rural Electrification Unit.

The REU also does not have a vehicle exclusively for its use but uses the department's vehicle. For inspections in inland terrain, vehicle is requested from the Ministry as the Department does not have a vehicle that can travel through rugged terrains.

Furthermore audit noted that the amount budgeted for the REU section for the years 2008 to 2012 were not fully utilized. Details of saving are listed in table 6.3 below.

There is a risk that projects implemented may not be effectively monitored due to the lack of resources which may impede on the monitoring activities of the Unit.

### **Monitoring and evaluation of rural electrification projects**

Monitoring and evaluation of projects and contracts allows the identification of key areas requiring management's attention for improvement. Monitoring and evaluation of Rural Electrification Projects activities is critical in ensuring that the specifications set in the contract and the guidelines is complied with and that applicable courses of actions are taken if they are not complied with. The monitoring and evaluation reports were not produced for scrutiny. The evaluation of the REU's performance was not done, but annual performance was always reported in annual report. The management of REU has not been able to evaluate its performance in rural electrification; to identify challenges, track progress and develop corrective measures and this may affect the achievement of the rural connections set in the corporate plan.

Although management of the rural electrification program is guided by policies and operating guidelines, these documents need to be reviewed. Most current practices need to be documented and included in the policies and guidelines to bolster its authoritativeness. Well documented practices ensure relevance, compliance and accountability.

Despite a lack of resources, the Unit has been able to administer and implement the rural electrification program. However maintenance and security over records are lacking. Follow up action on recoveries of user pay systems and community contributions were not evident.

The effectiveness of monitoring activities is hindered by a lack of resources. The REU monitors projects implemented under the rural electrification program within the resources available to it.

### **COMMITTEE RECOMMENDATIONS**

#### **Management Framework of Rural Electrification Program**

##### **Recommendation 1**

PAC recommends that the Department of Energy should review the 1993 Rural Electrification policy and the standard operating procedures to incorporate all current practices not included in the existing documents. In its review, it should consider reviewing clauses pertaining to its duties and responsibilities to accommodate the changes in technology that have arisen over time and the additional activities/responsibilities required to address such changes for example, no deposit, underground cabling or grids, solar panels, and so forth.

##### **Recommendation 2**

PAC recommends that the Department of Energy should review the staff structure at the REU to identify areas where they need more staff to ensure the timely implementation of projects. Additionally, to achieve this there is a need for increase in funding allocation.

##### **Recommendation 3**

PAC further recommends that the Department of Energy should identify the training needs of its staff and send them to appropriate trainings that will enhance their knowledge and skills. In addition, PAC recommends that more funding be allocated to the Department to remunerate staff at market rate.



#### Recommendation 4

PAC recommends that the Department of Energy should ensure that it utilizes funding provided to it in the year appropriated so that it does not impinge on the following year's budget and adversely impact the anticipated activities budgeted for.

#### **Administration and Implementation of Rural Electrification Program**

PAC further recommends that the Department of Energy should:

##### Recommendation 1

Be more vigilant in its vetting process when receiving applications to ensure that forms are complete in all respect and that all supporting documents are provided so that applicants are not deprived of receiving assistance. There exists a need for the representatives from the Department to create more awareness and work closely with respective stakeholders (hands on approach).

##### Recommendation 2

Review the RE Policy and consider incorporating options that are viable for rural communities, in view of prevailing or rising costs of fuel. Consideration should be given to moving away from fossil fuels.

##### Recommendation 3

Ensure that documents sanctioning any changes to requirements of the RE Policy is maintained for evidentiary audit purposes. The RE Policy needs to be reviewed to incorporate changes with respect to equipment requirements currently installed and latest technology.

##### Recommendation 4

Ensure that under the RESCO model all prepayment machines should be properly maintained or replaced if necessary. The Department to work closely with communities that are not paying their monthly rental fees for collection.

##### Recommendation 5

Take stock of the Units files and maintain records to keep track of file movements to minimize misplacement of files. The Unit should also pursue the purchase of a data base for the Department for its records management purposes and security of records.

All the signed copies of the contract should be filed properly and kept in a secure place.

Each contract should be complete with all the proper documents attached to it such as sketches, number of applicants and tender specifications.

### **Monitoring and Inspection of Projects under the REP**

#### **Recommendation 1**

PAC recommends that the Department of Energy should recruit more staff for the timely monitoring of REU projects. In addition, REU should be allocated additional 4WD vehicles to assist in monitoring of projects in the interior which are inaccessible or with a rugged terrain.

#### **Recommendation 2**

PAC recommends that the Department of Energy should conduct quarterly evaluation of RE projects and also submit for audit upon request.



## Public Debt Management

### Background

The main determinant for borrowings has been the financing of Government's annual deficit, since government revenue has not been able to cover all of government's expenditure, particularly capital expenditure. Over the past 5 years, Government borrowings have increased steadily from \$3.1billion in 2009 to \$3.8 billion in 2013. The increasing trends in public debt highlight the importance of public debt management to ensure sustainability of public debt.

The audit on "Public Debt Management" focused on two areas:

1. The determination of public borrowing needs
2. Public debt reporting

Public debt management in government is a collaborative effort amongst all government entities and relevant key stakeholders, with the Ministry of Finance as the key agency responsible overall. The audit centers on the Ministry of Finance as the focal ministry responsible for administering borrowings on behalf of Government.

#### 1. Determination of public borrowing needs

- Government's borrowing needs is determined through the structured annual budget process that involves a significant amount of information and coordination amongst relevant government entities. A conservative approach to budgeting is adopted as evidenced in the disparities reflected between projected deficits and actual deficits, and which distorts the planned projection of government's borrowing needs.
- Over the past 5 years Government borrowings have increased steadily from \$3.1billion in 2009 to \$3.8billion in 2013. However, declining trends or percentage decreases were noted in actual borrowings as a percentage of GDP from 2010 to 2012, and which are less than the fiscal targets forecasted.
- The Debt and Cash Flow Management Unit (DCFMU) has adequately provided information pertaining to debt servicing requirements and for which sufficient provisions have been provided for in the annual budget of government. However, in 2009 and 2012 actual debt servicing for domestic borrowing paid exceeded budgetary provisions. Actual debt servicing for short term borrowing also exceeded

budget provided in 2010.

- Considerations on the potential impacts of contingent liabilities to the economy are factored in the budget process. Provisions have been set aside in the annual budget over the past 5 years 2009 to 2013 to cater for meeting obligations for contingent liabilities. During the 5 years 2009 to 2013, Government has only had to meet contingent liability of the Fiji Sports Council and the Fiji Sugar Cane Growers Fund.

## 2. Public debt reporting

- Public debt and contingent liabilities of Government have been adequately reported in the whole of government's annual financial statements. Financial disclosures of public debt and contingent liabilities are deemed accurate and reliable as they have been subjected to thorough scrutiny.
- There are sufficient disclosures in the Government Debt Reports and Contingent Liability Reports.

Government's borrowing need is determined in view of the current to medium term and is sustainable. The process in place to determine borrowing needs and its debt servicing requirements, and the provision of funds to meet contingent liabilities are sufficient to ensure sustainability in the current and medium term. However, with public debt and contingent liabilities of government steadily increasing over the years, Government may have to reconsider debt management strategies to ensure long term sustainability.

Although public debt is currently maintained within the projected annual fiscal targets, the Ministry should consider employing strategies that will enable it to achieve the ideal rule of thumb target of 40% of GDP to ensure sustainability in the long term.

Government debt, also known as public debt and national debt is the debt owed by a central government, and is one method of financing government operations. Government usually borrows by issuing securities, government bonds, and treasury bills, as well as borrowing directly from international organizations. Since government draws its income from much of the population, government debt is an indirect debt of the taxpayers and can be categorized as internal debt. Public borrowing and debt can expand the production and consumption choices of current and future generations, allowing governments to increase investments and distribute the tax burden more fairly between current and future generations. However, public borrowing and debt entail significant risks if they are not managed properly.

Sovereign debt on the other hand usually refers to government debt that has been issued in



foreign currency. Sovereign debt management is the process of establishing and executing a strategy for managing the government's debt in order to meet any other sovereign debt management goals the government may have set.

A government's debt portfolio is usually the largest financial portfolio in the country, which often contains complex and risky financial structures, and can generate substantial risk to the government's balance sheet and to the country's financial stability.

Declining revenues and/or increased government spending/expenditure contribute towards public debt.

Public debt impacts on the overall economy and can seriously undermine the financial condition of a government. Therefore it is important to have in place robust public debt management strategies that include sound risk management practices, to achieve long term sustainability and financial stability.

Government borrows funds either through external sources i.e. from overseas countries as well internally through the local financial markets. The Fiji Government's debt position as at 31<sup>st</sup> December 2013 stood at \$3.83 billion comprising of \$2.74 billion domestic debt and \$1.08 billion external debt.

### Legislation

Part 9 of the Financial Management Act 2004 empowers the Minister for Finance, on behalf of the State to:

- borrow money by way of loans, overdrafts or advances in order to fund budget deficits or for other purposes authorized by the House of Representatives;
- enter into a hedging arrangement, provided it is in accordance with a prescribed debt strategy policy; and
- guarantee the financial liabilities of a statutory authority or majority government owned company, where authorized by the House of Representatives. Any pay out of a guarantee by Government is taken as a loan to the state entity whose liability was guaranteed.

In the absence of a Parliament, powers to approve the borrowing of monies to fund budget deficits and the guaranteeing of loans are vested with the Cabinet.

## **Administering agency**

The Ministry of Economy assumes the lead role in the drafting of fiscal and monetary policies in coordination with the Ministry of Strategic Planning, National Development, & Statistics (MSPNDS) and the Reserve Bank of Fiji (RBF) respectively. Policies are formulated at macro level and proposed to Cabinet for approval.

The two key Units within the Ministry of Economy that are responsible for the drafting of policies and the management of public debt are the Budget Division's Budget Policy Monitoring & Analysis Unit, and the Financial Asset Management Division's Debt & Cash Flow Management Unit (DCFMU), as illustrated in figure 2.1 below.

## **Ministry of Economy**

The Budget Division adopts the approved policies in the budget process. Fiscal policies influence the level of borrowing depending on which stance government wants for the economy. For example, if the Fiji Government wants to boost economic growth, it would opt for an expansionary fiscal policy, thus requiring more borrowing to improve infrastructure and other sectors. The magnitude of expenditure has an impact on the net budget deficits which determine the level of government borrowing.

The DCFMU is responsible for the management of all Government domestic and foreign debt by identifying lending agencies, securing loans by negotiation, documentation of all loan agreements, monitoring and reporting on the various aspects of the loan and servicing all obligations of the loan on the due date. For domestic debt, this involves the management of the domestic bond and Treasury Bills tenders using the RBF as an agent and servicing all obligations through the registry on the due date. In addition, the DCFMU is responsible for the overall management of cash, investment of surplus cash, recording of contingent liabilities through guarantees and for project finance for statutory bodies as well as management of government's arrears of revenue and lending fund account.

## **Other agencies influencing determination of borrowing needs**

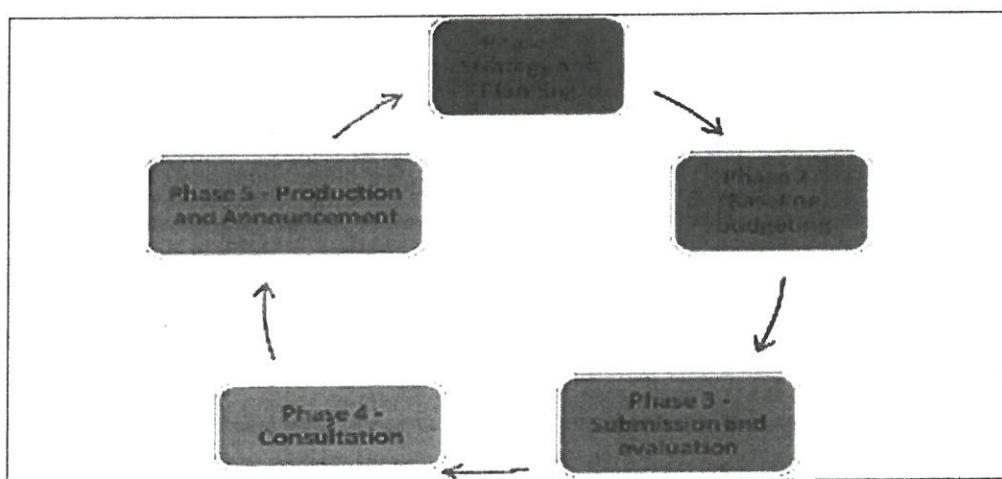
The determination of a government borrowing need is a complex function that requires a significant amount of information and coordination among government agencies in the budget process. A complete, thorough budgeting process results in a more accurate budget<sup>8</sup> which would lead to an accurate estimate of borrowing.



The central key agencies of Government that are influential in the formulation of macro-economic policies include the Ministry of Finance (MoF), the Ministry of Strategic Planning, National Development and Statistics (MSPNDS); the Fiji Revenue and Customs Authority (FRCA); and the Reserve Bank of Fiji (RBF)

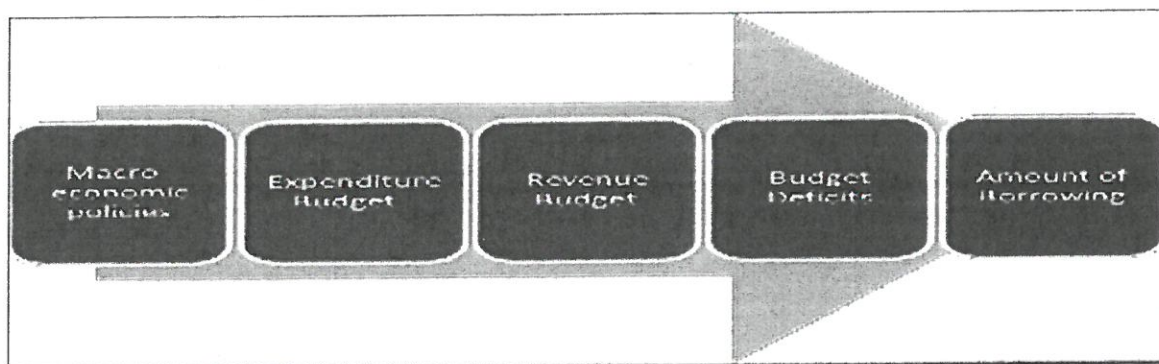
The above central agencies are mostly involved in Phase 1 of the budget process cycle and play a vital role in the planning phase as reflected in Figure 2.2 below.

Figure 2.2: Fiji Government Budget Process Cycle



The MOF takes the lead role in the budget process via the functions of the Budget Division. The MSPNDS contributes to the development of fiscal policies and capital budgeting process whilst the FRCA contributes to the fiscal - revenue policies and revenue budgeting. The RBF is responsible for developing the monetary policies considered in the budget process. Figure 2.4 below illustrates a summary of the relationship between macroeconomic policies and government borrowings.

Figure 2.3: Summary process of relationship between Macroeconomic policies and government borrowing



The other Ministries and Departments are also instrumental in the Budget formulation process and in determining the budget outcome, i.e. a surplus or deficit budget.

### **Reasons for undertaking the audit**

The members of the Pacific Association of Supreme Audit Institutions (PASAI), at its annual congress meeting in 2012 identified rising public debt as an issue of common interest in the member countries, and endorsed the topic “Public Debt Management” for a regional cooperative performance audit.

In the past 5 years Fiji has been operating under a deficit budget, implying that Fiji is dependent on loans or borrowings to finance its annual budgets. The Fiji Government’s reliance on borrowings to finance its normal operations over the years makes it vital to carry out a performance audit on public debt management.

### **AUDIT OBJECTIVES, SCOPE, & METHODOLOGY**

#### **Audit objectives**

The objective of the audit is to ascertain whether government borrowing needs were determined in view of long term sustainability and financial stability by examining:

- i. the process of determining borrowing needs; and
- ii. the reporting arrangements of public debt and loan guarantees.

In examining the process of determining borrowing needs, the audit sought to establish the effectiveness of the budget system in ensuring that borrowing needs are determined in view to economy and sustainability. Audit aspired to ascertain whether actual borrowings made by government in prior years were based on correct and complete estimates of borrowings needs. It also sought to ascertain whether contingent liabilities were adequately considered and factored into the annual budget estimates of government.

With respect to reporting arrangements, the audit sought to establish the effectiveness and efficiency of the reporting system in properly recording and reporting public debt and contingent liabilities through the production of complete, accurate and timely reports which are prepared in accordance with relevant reporting regulations, standards, and requirements.



## **Audit scope**

The audit focused on the Ministry of Finance as the agency responsible for administering borrowing on behalf of Government

The audit reviewed records maintained with respect to borrowings and the contingent liabilities of government for the past four years, 2009 to 2013. Records of years prior to 2009 were examined where deemed necessary.

## **Audit Methodology**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) guidelines 3000 - 3100.

To accomplish the audit objectives the audit team gathered evidence using the following techniques:

### **i. Documentary Reviews**

The audit team reviewed all necessary documents relevant to the audit topic. Documents reviewed included the Financial Management Act 2004; Ministry of Finance Circulars on Budget strategies; Annual Budgets of Government with its respective Budget Address Speeches and Supplements; Ministry of Finance Annual Corporate Plans and Annual Reports; Annual Financial Statements for the whole of Government; and Government of Fiji Debt Report; etc.

### **ii. Interviews**

Interviews were carried out with relevant personnel of the various key stakeholder agencies. Person interviewed are listed in table 3.1 below.

Table 3.1: List of persons interviewed

<b>Organisation</b>	<b>Unit</b>	<b>Position</b>
Ministry of Finance	Budget	Deputy Secretary Budget, Principal Economist Budget
Ministry of Finance	DCFMU	Director Debt, Principal

		Accountant Debt and officials
Ministry of Strategic Planning, National Development and Statistics	Macro Unit	Acting Chief Economic Planning Officer
Fiji Revenue and Customs Authority	Corporate Service & Policy	Principal Revenue & Policy
Reserve Bank of Fiji	Economics	Chief Manager Economics

iii. Analytical Review

Analytical reviews of debt management data maintained by the Debt Management and Cash Flow Unit were conducted.

iv. Walk through tests and re-performance

Walk through tests were carried out to verify systems in operation. Debt records were examined and re-performances of calculations of sampled transactions were carried out to verify accuracy and completeness of recording.

v. Internet research

Internet research regarding issues pertaining to government borrowings and audits carried out on the topic were conducted.

vi. Electronic Communication

Communications via e-mails between the audit team and relevant officers in key stakeholder agencies were made to obtain as well as reaffirm information.

## DETERMINATION OF PUBLIC BORROWING NEEDS

Part 2 of the Financial Management Act 2005 specifies the principles of responsible financial management, which should be considered in managing the financial affairs of the State, amongst which includes managing of revenue and expenditure in such a way as to achieve prudent levels of debt.



Assessing the sustainability of public debt is an important task of macroeconomic policy. It is recognized that debt management strategies must be coordinated with monetary, fiscal and exchange rate policies to ensure long term macroeconomic stability.

### **Process of determining borrowing need**

The Minister must table a strategic policy statement in the House of Representative on or before the 30<sup>th</sup> of June in each financial year<sup>9</sup>. The strategic policy statement must include amongst other things a statement of the Government's financial targets or limits for the next financial year and for the following two financial years, relating to the budget result as a proportion of gross domestic product; government debt as a proportion of gross domestic product; government debt servicing as a proportion of gross domestic product, and contingent liabilities as a proportion of gross domestic product.

The strategic policy statement (SPS) prepared by the Ministry of Finance and submitted to Cabinet, sets out Government's broad medium-term objectives and fiscal targets, and forms the basis on which the following annual budget is prepared. The fiscal targets set relate to the intended budget result (deficit/surplus); the level of government debt; the level of government debt servicing; and the level of contingent liabilities. All four targets are expressed as a percentage of gross domestic product (GDP) as it provides an indicator of the sustainability of the government's fiscal intentions in relation to the size of the economy as a whole, that is, the higher the percentage the greater the size/impact the public debt has on the economy. The medium term which covers three years, i.e. the following year and the two subsequent financial years, also include the actual/projected results for the previous two financial years for purposes of comparison and trend analysis.

Over the 4 years 2009 to 2012 the Ministry of Finance has, upon Cabinet's endorsement of the SPS, effectively disseminated the Budget Strategy to all government entities via issuance of a Circular as listed in table 4.1 below informing government entities of the strategy and broad guidelines for the formulation of the Government's Annual Budget.

This section of the report discusses findings on the assessment of government's capacity to produce and communicate promptly to debt managers the budget figures for the period; and all major contingencies that will be realised during the period.

The Budget Strategy describes the revenue, expenditure and policy measures to be adopted by Government in attaining its broad fiscal policy objectives. To ensure the sustainability of

Government's debt position, the Budget Strategy sets annual targets for Government's debt levels. Government's fiscal strategy are developed for the medium term and focus on gradual budget deficits to attain a sustainable debt level while simultaneously allocating adequate resources to raise growth, investment and essential public services.

Since the allocation of resources is a critical input to the achievement of government's growth targets, the Budget Strategy include fiscal frameworks developed to enable the attainment of Government's annual targeted growth rates. For example, the fiscal framework included in the 2012 Budget Strategy as illustrated in table 4.2 below sets the net deficit target at 3% of GDP for the 2012 Budget with gradual reductions to 2.5% in 2013 and 2% by 2014, with anticipated results in declining debt levels from around 53.4% of GDP in 2012 to 50.4% within the medium term.

**Table 4.1: Ministry of Finance Circulars on Budget Strategy issued for years 2009 to 2012**

MoF Circular No.	Date	Subject
10/2008	2/7/2008	2009 Budget Strategy
9/2009	6/7/2009	2010 Budget Strategy
12/2010	10/9/2010	2011 Budget Strategy
8/2011	4/7/2011	2012 Budget Strategy and Baseline Budget

Source: Ministry of Finance Circulars

Following the dissemination of the Budget Strategy by the Ministry of Finance, Ministries and Departments submit their operating expenditure proposals to the Ministry of Finance (MoF) Budget Division, and their capital expenditure proposals to the Ministry of Strategic Planning, National Development and Statistics (MSPNDS) within the stipulated timelines. Ministries with projects to be funded through direct payments ensure that the total direct payments are within the approved expenditure envelope size for the Ministry.

Consultations on the budget proposals are then held between central agencies and the MoF, the MSPNDS, and the Public Service Commission (PSC). Further consultations are held at the ministerial level with the Cabinet Sub Committee on the Budget (CSB), following which



the Budget is finalized and tabled in Cabinet, prior to being announced in November.

Audit noted that forecasted ratios as per the budget estimate over the 4 years 2009 to 2012 have been forecasted in view of the budget strategies circulated.

The forecasted net deficit of 1.9% of GDP as per the 2012 budget estimate is well within the budget strategy projection of 3.0% of GDP and the IMF's recommended target of 2percent<sup>10</sup>, whilst forecasted net deficits of 3.5% of GDP for 2010 and 2011 were slightly above the projections as per the budget strategy of 3.0% of GDP. A downward trend was noted in forecasts of debt to GDP ratios. However, despite declining forecasted debt ratio levels from 55.3% of GDP in 2011 to 53.4% in the 2012 budget, debt levels are still considered unsustainable in view of the international "rule of thumb" which requires debt to be within 40% of GDP thresh-hold. A little more flexibility was noted in the forecasting of the operating to capital expenditure ratios in the annual budget over the 4 years. Although the forecasted operating capital expenditure mix in the 2012 budget was more than the projected budget strategy ratio, it is much lesser than forecasted as per the budgets for years 2009 and 2010, which is reflective of government's efforts towards preventing the need to borrow to finance recurrent expenditure and freeing up additional resources for capital expenditure and debt repayment.

The budget estimate is supported by an annual Budget Funding Program (BFP) which provides an estimate of total expenditure and revenue. The budget results (surplus/deficit) arising out of projected revenue and expenditure together with projected debt repayments provide the basis for borrowing need, that is, a deficit budget result would require borrowings by Government. The BFP also identifies sources of borrowings that will finance the forecasted deficit. Reflected in table 4.4 are the forecasted budget results from the BFP and the proposed sources of funding the budget results for the 5 years 2009 to 2013.

Projections as per budget strategy	2012	2011	2010	2009
Net deficit % of GDP	3	3	3	2
Debt to GDP ratio	54	55.3		46.1
Operating capital expenditure mix	70:30	76:24	77:23	79:21
Projections as per budget estimate	2012	2011	2010	2009

Net deficit % of GDP	1.9	3.5	3.5	3
Debt to GDP ratio	53.4	54.5	56.2	55.8
Operating capital expenditure mix	73:28	72:28	80:20	80:20

**Table 4.4: Budget Funding Program**

Description	2013 \$	2012 \$	2011 \$	2010 \$	2009 \$
Expenditure	2,327,385,300	2,077,929,300	1,961,718,300	1,706,597,500	1,715,225,400
Revenue	2,108,408,900	1,942,807,000	1,745,672,300	1,486,514,800	1,522,389,100
Net deficit	218,976,400	135,122,300	216,046,100	220,082,700	192,836,300
Debt repayments	179,997,000	203,314,500	518,755,400	276,806,700	329,644,500
Gross deficit	398,973,400	338,436,800	734,801,500	496,889,382	522,480,800
Gross deficit to be financed from:					
Overseas loans	255,000,000	142,500,000	603,000,000	0	0
Domestic loans	143,973,400	195,936,800	131,801,500	496,889,400	522,480,800
	398,973,400	338,436,800	734,801,500	496,889,400	522,480,800

**Source: original Budget Estimates 2009 - 2013**

The audit noted that financing of gross deficits have been adequately identified. Annual



deficits forecasted for the years 2009 and 2010 were anticipated to be financed entirely through domestic loans. A significant proportion of gross deficit for the years 2011 and 2013 were forecasted to be financed through overseas borrowings, whilst 58% of deficit for 2012 was anticipated to be financed through domestic loans. The forecasted budget deficit trend over the 5 years reflect a significant increase from 2010 to 2011 and downward trend in 2012, and is attributed to the substantial provisions for debt repayments in 2011 which included prepayments of 3 loans due in 2030 totaling \$8.7million, and the repayment of bonds totaling \$500,000,000 in the international bond market.

To facilitate the deficit budget results the Debt Management and Cash Flow Unit (DCFMU) prepares and submits to the Budget Division a Loan Funding Program (LFP) which identifies borrowing providers and the amount to be drawn down from each provider, either domestically or externally. Listed in table 4.5 below are annual anticipated borrowings as per the Loan Funding Program.

Table 4.5: Loan Funding Program

Source of Loans	2013 \$	2012 \$	2011 \$	2010 \$	2009 \$
<b>OVERSEAS LOANS: Direct payment – International Bank Loan</b>					
ADB Loan No. 1530 FRUP III	0	0	8,000,000	0	0
ADB Loan No. 2541 Flood Recovery Loan	15,000,000	0	0	0	0
ADB Loan No. 2603 Supp. Suva Nausori	13,000,000	15,000,000	10,000,000	0	0
ADB Loan No. 2514 Supp. FRUP III	10,000,000	18,000,000	22,000,000	0	0
EXIM China Low Cost Housing Project	13,000,000	10,000,000	10,000,000	0	0

EXIM China Fiji Public Rental Housing Project	6,000,000	6,000,000	6,000,000	0	0
EXIM Malaysia Roads Rehabilitation Project	40,000,000	45,000,000	30,000,000	0	0
EXIM China Roads Improvement Project Sigatoka/ Serea	22,000,000	22,000,000	8,000,000	0	0
EXIM China Roads Improvement Project Buca/Moto	24,000,000	24,000,000	9,000,000	0	0
EXIM China Roads Nabouwalu – Dreketi Road Upgrading Project	80,000,000	0	0	0	0
EXIM Bank of Malaysia Nakasi – Nausori Widening	15,000,000	0	0	0	0

Source: Budget Estimates 2009 - 2013

The audit noted that whilst anticipated funding from domestic sources declined over the five year period, anticipated sources of and total direct payments from overseas sources increased significantly, indicating a dependence on overseas borrowings to fund its budget deficit. Of the projected borrowings for 2013, four new loans were anticipated whilst eight were drawdowns of existing loans.

The structured budget process has enabled Government in determining its borrowing needs, and adequately identifying sources of funds to meet its loan obligations in a sustainable manner for the current and medium term.

#### Reliability of budget deficit estimation

The Minister must also table in the House of Representative and the Senate budget papers for an annual budget for the next financial year on or before the 30th of November in each financial year<sup>11</sup>. The budget papers for a financial year must comprise inter alia one or more budget statements, of which one is to include the estimated budget result for the budget year (as surplus or budget deficit).

The estimated budget result determines the extent of government borrowings for any one



year. Thus Government provides for borrowings when a budget deficit is estimated since forecasted revenues are insufficient to cover forecasted expenditure of Government for such periods.

A comparison of actual borrowings drawn down against forecasted borrowings to finance gross deficit as per the budget estimate noted that actual borrowings were not reflective of forecasts made in the budget estimate, with overall savings in budgets noted ranging from \$33,924,297 (or 7%) in 2010 and \$142,245,965 (or 42.5%) in 2012, indicating a conservative budget approach. For details refer Table 4.2 below.

Table 4.6: Actual borrowings vs. estimated borrowings to fund budget deficit

	2012	2011	2010	2009
<b>Gross deficit</b>	<b>334,436,800</b>	<b>734,801,500</b>	<b>496,889,400</b>	<b>522,480,800</b>
Financed by:				
Overseas loans	142,500,000	603,000,000		
Domestic loans	195,936,800	131,801,500	496,889,400	522,480,800

<b>Actual borrowings</b>				
Overseas loans	91,587	569,043,119	10,231,002	1,149,982
Domestic loans	192,099,248	81,470,524	452,734,100	404,239,758
<b>Total borrowings</b>	<b>192,190,835</b>	<b>650,513,643</b>	<b>462,965,103</b>	<b>405,389,740</b>
<b>Variance in actual borrowings against estimated borrowings</b>	(142,245,965)	(84,287,857)	(33,924,297)	(117,091,060)
<b>Percentage variance</b>	42.5%	11%	7%	22.4%

Source: Ministry of Finance Budget Estimates 2009-2012

Actual borrowings drawn from domestic sources in 2009 and 2010 were less than forecasted by \$118,241,042 (or 22.6%) and \$44,155,300 (or 8.9%) respectively. In addition loans of \$1,149,982 and \$10,231,002 were drawn down from overseas borrowings despite forecasts in the budget estimates that gross deficit would be financed entirely by domestic loans for the years 2009 and 2010.

The audit noted that actual borrowings incurred to finance anticipated deficits for 2011 and 2012 were less than forecasted borrowings by 11% and 42.5% respectively, indicating overstated budget results. It was noted that actual overseas borrowings recognized in the consolidated fund in 2012 were significantly less than forecasted by \$142,408,413 (or 99.9%) and is attributed to non-inclusions of direct cash disbursed to contractors, non-cash loans and other loan payables (interest and commitment fee) due even though they were provided for in the budget and are being serviced by government. Direct cash disbursements to contractors and related transactions incurred, these are \$137,460,945 in 2012, \$51,718,514 in 2010 and \$24,326,851 in 2009, which are disclosed as notes in the whole of Government's accounts.

Misstatements of budget results impact on estimation of borrowing needs of Government, that is, growing public debt and its servicing costs could lead to severe debt burden to the economy in future if not managed properly.

#### System for determining debts due

The Debt Management & Cash Flow Unit (DCFMU) is responsible for producing the Government's Head 52 forecasts for principal repayments of loans and interest payments on loans for inclusion in the annual Budget Estimate.

The DCFMU uses the Commonwealth System–Debt Repayment Management System (CS-DRMS) to record and report all government debt related data. Amounts to be repaid are determined from the External Debt Repayment Schedule generated from the CS-DRMS as well as from the amortisation schedule as per the Loan Agreements.

A comparison of actual expenditures against forecasted expenditures for charges on account of public debt over the four years 2009 to 2012 revealed significant variances. Refer to Appendix 1.0 for details of interest and principal repayments provided under Head 52 and the actual debt servicing paid out for years 2009 to 2012. As can be noted from table in Appendix 1, significant savings were recorded for principal repayments for overseas



borrowings in 2009 by 68.9%, in 2010 by 58.5%, and in 2012 by 19.1%. Substantial savings were also noted for interest payments for treasury bills by 34.2%, 58.37% and 78.7% over the same period respectively.

Also domestic loan interest payments for 2009 and principal repayments for domestic loans for 2012 exceeded forecasted expenditures by \$8,620,307 (or 5.5%) and \$45,020,000 (or 24.56%) respectively.

Forecasted overall debt servicing in 2012 decreased by \$320,022,000 from 2011. However actual overall debt servicing for 2012 exceeded forecasts and is attributed to redemptions of domestic borrowing exceeding forecasts by \$45,020,000 (or 24.56%).

### Estimation of contingencies

One of the five principles of responsible financial management is to manage contingent liability in a prudent manner<sup>12</sup>. The Minister must table a strategic policy statement in the House of Representative on or before the 30<sup>th</sup> of June in each financial year, which must include amongst other things a statement of the Government's financial targets or limits for the next financial year and for the following two financial years, relating to contingent liabilities as a proportion of gross domestic product. A register of contingent liabilities must be maintained and must include information with respect to the description of the contingent liability; its value (if it can be reliably measured); the way in which the contingency arose; details of any action required to minimise the potential loss; and details of progress in managing the risk.

As part of the budget formulation process, Strategic Policy Statements (SPS) prepared by the Ministry of Finance and submitted to Cabinet (in the absence of Parliament) by the 30<sup>th</sup> of June of the preceding financial year include the fiscal targets relating to levels of contingent liabilities for the coming year, and the two following financial years. The actual/projected results for the previous two financial years are also included for purposes of comparison and trend analysis. Fiscal targets for government contingent liability portfolios for 2011 to 2014 have been set to be contained at below 35% of GDP<sup>15</sup> as per each respective year's ACP.

The audit also noted that the Annual Budget Strategy disseminated by the Ministry of Finance to all government entities identifies contingent liabilities as one of the significant risks to Fiji's economy. It discloses that the Ministry finds the increasing size of contingent

liabilities and government guarantees of significant concern, as it represents potential claims that have not materialised but could prompt immediate financial obligation from Government<sup>16</sup>. Reflected in table 4.7 below are the contingent liabilities of Government's for the five years 2009 to 2012.

Although minor fluctuations were noted in the fiscal targets of contingent liabilities expressed as a percentage of GDP over the three years 2010 to 2012, contingent liability has increased steadily by 7.8% to 11.5% in 2011 and 2012 respectively.

In recognising the potential risks to government's financial position should agencies default on their repayment obligations, provisions for contingent liabilities have been made in the annual budget estimates.

Funds in the Budget Estimate are to cater for any contingent liability, and are not provided specifically for explicit or implicit guarantees. Implicit guarantees is assurance given by Government on the financial liability of an entity in respect of a loan or otherwise in the domestic market as well as externally, as approved by Cabinet. Explicit guarantees are assurances given by Government without deeds of guarantee with the other entity such as guarantees of member contributions in the Fiji National Provident Fund, customer deposits in the National Bank of Fiji, and subscriptions held with international Agencies' Securities accounts. However, Government has only utilised funds provided in the 2010 annual Budget totalling \$500,000. The inability of the Fiji Sports Council in meeting their loan obligations with the ANZ Bank led government to meet the default.

Furthermore section 6.3 of the Government Guarantee Policy 2013 requires the Ministry of Finance to create a Sinking Fund where all proceeds from guarantee fees are to be deposited. Proceeds deposited in the sinking fund are to be used to support payment of guaranteed loans in the event of defaults. However this has yet to eventuate.

Expressing fiscal target levels of contingent liabilities as a percentage of gross domestic products (GDP) provides an indicator of the sustainability of the Government's fiscal intentions in relation to the size of the economy as a whole. The higher the percentage the greater the size/impact the public sector has on the economy.



**Table 4.7: Contingent liabilities**

	2009	2010	2011	2012
Total contingent liabilities	1,963,068,505	1,791,461,261	1,931,795,891	2,155,254,122
Contingent liability to GDP (%)	34.3%	29.4%	28.7%	28.8%

Source: Schedule 5 to Whole of Government Financial Statements for years 2009 to 2012

**Table 4.8: Provision for contingents in Budget Estimate**

Year	Budget Provision \$
2009	915,800
2010	915,800
2011	1,802,000
2012	1,000,000
2013	1,000,000

## **PUBLIC DEBT REPORTING**

Reporting transparently in accordance with relevant accounting and statistical standards is one of the principles of responsible financial management.

Clear and explicit legal reporting requirements such as financial statements, budgetary reports, and public debt reports, should exist to hold public debt managers accountable to senior debt officials and ministers charged with governance and to the Cabinet (in the absence of Parliament).

### **Statutory reporting requirements of public debt**

The Minister must table in the House of Representatives a mid-year fiscal statement for the first 6 months of each financial year which must include a statement for the whole of

government, specifying:

- the total revenue and total expenditure, and the surplus or deficit, for the period of 6 months, compared with the revenue and expenditure, and the surplus or deficit, for the corresponding period of the previous financial year;
- the projected total revenue and total expenditure, and the projected surplus or deficit, for the financial year, compared with the actual revenue and expenditure, and surplus or deficit for the previous year<sup>20</sup>. The Minister must also table a whole of government (WoG) annual report for each financial year within 9 months after the end of each year, and which must include:
  - the whole of government financial statements;
  - the annual appropriation statement; and
  - the annual budget statement. The Chief Executive Officer of the Ministry of Finance is responsible for the preparation of the whole of government annual report and the statements required to be included in them.

The audit observed that the Ministry of Finance has met its statutory reporting requirements for the years 2009 to 2012. The WoG annual report for financial years 2009 to 2012 submitted for audit includes amongst other things a statement of assets and liabilities, including details of cash balances, investment, sinking funds and borrowings; and a statement of contingent liabilities as required under section 46(1)(b) of the Financial Management Act 17 of 2004.

The WoG financial statements signed by the Permanent Secretary for Finance (PSF) has been submitted to the Office of the Auditor General for audit within 9 months after the end of each respective financial year as required. The WoG financial statements for the years ended 2009 to 2012 also contain the audit opinion issued by the Office of the Auditor General as required under section 46(2) of the Financial Management Act 17 of 2004. The Auditor General issued opinions on the WoG financial statements on the following dates as reflected in table 5.1 below.

Issue of the audit opinion on the WoG financial statements for year ending 2010 was delayed due to “implosions” in the Ministry of Finance’s Financial Management Information System (FMIS).

The annual appropriation statement is also included in the WoG annual report for the financial years ending 2009 to 2012. As required under section 47 (1) of the FMA 2004, the annual appropriation statements disclosed:



- the actual revenue and expenditure, and surplus or deficit, for the financial year;
- the corresponding revenue estimates and appropriations for the financial year; and
- details of reportable authorisations relating to the financial year.

Also included in the WoG annual reports for the years 2009 to 2012 is the annual budget statement. Disclosures in the respective annual budget statements were in accordance with section 48 (1) of the FMA 2004, and:

- showed the revenue, expenditure, and surplus or deficit, for each of the 2 previous financial years;
- showed the estimated revenue, expenditure, and surplus or deficit, for the financial year;
- showed the projected revenue, expenditure, and surplus or deficit, for the next 2 financial years;
- provided a disaggregation of revenue, estimated revenue, and projected revenue by economic type;
- provided a disaggregation of expenditure, estimated expenditure, and projected expenditure by economic type;
- included a statement comparing for each type of financial target, or limit specified in the most recently tabled strategic policy statement that target or limit any revisions specified in the budget statement, and the actual results.

The data disclosed are complete, reliable, accurate and consistent as they have been audited by the Office of the Auditor General and certified with accompanying opinion as reflected in table 5.1 below.

**Table 5.1: Dates of signing WoG statements and issuance of audit opinions**

Year	Date audit opinion issued	Date WoG statement signed by PSF
2009	20 <sup>th</sup> September 2010	17 <sup>th</sup> September 2010
2010	19 <sup>th</sup> October 2011	12 <sup>th</sup> October 2011
2011	19 <sup>th</sup> September 2012	12 <sup>th</sup> September 2012
2012	17 <sup>th</sup> September 2013	September 2013

Source: Whole of Government Financial Statements for 2009, 2010, 2011, 2012

### Government debt reports

The Minister of Finance is responsible for managing the financial affairs of the Government as a whole in accordance with the requirements of the Financial Management Act and with due regard to the principles of responsible financial management. One of the principles of responsible financial management is to report transparently in accordance with relevant accounting standards and statistical standards. The Debt Management & Cash Flow Unit (DMCFU) is required to present the annual debt report to Cabinet by March of each year.

The Debt Management & Cash Flow Unit of the MOF uses the CS-DRMS to record and report all the government debt related data. The CS-DRMS system enables the Unit in formulating the quarterly and annual government debt reports. The CS-DRMS is an integrated tool for recording, monitoring, analysing and reporting public debt which is constantly evolving to match the ways in which debt management is reshaping itself. The CS-DRMS helps MOF in minimizing risks within their debt portfolios and achieves savings through lower debt servicing payments while assisting the government in bringing the debt burden to manageable levels through the analysis of the impact of debt relief and restructuring. However, the current version of the CS-DRMS used by MOF has not been updated from the 2006 version. As a result, the full potential of the CS-DRMS could not be used. The audit noted the following international debt report limitations:

Reporting on internationally accepted practices such as IMF's Special Data Dissemination Standard (SDDS), Quarterly External Debt Statistics (QEDS) and World Bank's Debtor Reporting System (DRS).

Report writing tool for developing country specific reports Commonwealth Secretariat Debt Recording and Management System (CS-DRMS)

Government Debt Reports are prepared by the DMCFU on a quarterly and annual basis. Quarterly reports are submitted to the Debt and Cash Flow Policy Committee on the 10<sup>th</sup> day of the month following the quarter for their internal deliberations. Annual government debt reports for the 5 years 2009 to 2013 prepared and submitted to Cabinet were published on the dates referred to in table 5.2 below.



Year	Date published
2009	undisclosed
2010	May 2011
2011	January 2012
2012	January 2013
2013	January 2014

Source: Government Debt Reports 2009-2013

The above annual Government debt reports and those for the years 2007 and 2008 are available to the public on the Ministry of Finance's website.

Comparisons of Government debt reports prepared for the years 2009 to 2013 revealed transparency and consistency in disclosures of government's debt portfolio. The debt reports disclosed information pertaining to Government's debt position, Government's domestic debt, and Government's external debt. Other disclosures included debt servicing forecasts, Government guarantee exposures, major highlights in the year; opportunities, and a summary on the performance of government's debt portfolio for each year.

Total debt stock is classified as either external or domestic borrowings (i.e. residency), with debt ratio expressed as a percentage of GDP. Residency classification of debt is also expressed as a percentage of total debt. Comparative data is provided over a 5 year period. Refer to table 5.3 for disclosures in the Government's Debt Report for 2013. It is noted from the above table that increase in government debt over the five years period is attributed mainly to increased external borrowings. However total debt to GDP ratio has decreased gradually from 55.8% in 2009 to 49.1% at the end of 2013 indicating that the economy is growing faster than its borrowing activities.

Loans under domestic borrowing are the amount realised by Government for a government guaranteed loan by the Fiji Sugar Cane Growers Council.

Domestic debt servicing is presented graphically and shows trends in debt servicing costs but does not attach a dollar value to it.

The debt report presents information on external debts by disbursed outstanding debt at year end. The increase in debt servicing in 2011 is attributed to the settlement of the global

Bond of US\$150 million, a trend that is expected to continue until the redemption of the second global bond in 2016. The debt report also provides a breakdown of annual external loan disbursements by lenders. Composition of external debt is presented in the debt report by creditor categories as well as by economic sectors.

There is a risk that users of the report may not have been consistently informed of key aspects of public debt over the years.

### Reporting of contingent liabilities

The whole of government financial statements required to be included in the whole of government annual report for a financial year must include for financial years where the Minister is satisfied that relevant reliable accrual information is not available, amongst other things, a statement of contingent liabilities.

Although the Ministry's corporate planning documents do not provide for the submission of report on contingent liabilities, the DCFMU prepares the Contingent Liability Reports each year.

Audit verifications established that the reports presents trends in government guarantees provided over a five year period. It also provides brief analysis of the types of guarantees provided to each entity and how funds are utilised. The report also discloses risk and challenges to government, and proposed strategies and recommendations to be undertaken by government in order to strengthen the supervision and monitoring of risks associated with guaranteed entities.

Our audit however found that there is no defined timeline as to when the reports are to be produced by the Unit. No evidence of the timeline was indicated in the Ministry's ACP. As a result there were variations in the time the reports were finalised. Refer to the following table for the time the reports were prepared by the Unit over the last three years. The audit noted that the Government Contingent Liability Report is submitted to the Minister of Finance and made available within the Ministry but is not made available on the Ministry's website as in the case of Government Debt Report.

Review of the past five years contingent liability reports found that there were differences in the amount of contingent liability reported for specific years. Refer to the table 5.8 for details.



Year	Report Date
2010	June 2011
2011	June 2012
2012	April 2013

It can be gathered from the table that incorrect amounts of contingent liabilities were reported in 2010 and 2012 for the indicated agencies.

The differences in recording of the amount reflected in the table above indicate that no proper checks were conducted by the Debt and Cash Flow Management Unit prior to the report being finalised. In addition, the absence of defined timeline in the preparation of the contingent liability report suggests that there is no urgency in determination of the amount and as such evaluations of potential risks of the liability to government finances are not conducted in a timely manner.

Furthermore, the non-publishing of the contingent liability report by the Ministry in its website reflects lack of transparency in reporting such key information.

#### Mechanism for implementing agencies to regularly report to Ministry of Economy

The Ministry of Economy should have a mechanism in place that requires implementing agencies to report on their servicing of debt which the government has guaranteed.

Section 6 of the government guarantee supplementary agreements sets out the requirements of the types of information to be provided by a guaranteed entity concerning the guarantees issued. The following requirements are set out under section 6.0 of the agreement: Within 30 workings days for the period ending 30<sup>th</sup> June and 31<sup>st</sup> December each year while this Agreement is in force, the Authority shall provide a comprehensive report to the Minister on the operation of the guarantee finance for the half-year. Each report must detail:

- a) All borrowing proposals which might involve a guarantee from Government;

- b) Provision of Progressive Repayments or Prepayments;
- c) Statement of Finance Performance;
- d) Statement of Annual Financial Position;
- e) Security of Guarantee- Debenture on the guaranteed entity;
- f) Statement of Cash flow;
- g) A documentary on the current and future soundness of the entity;
- h) Business and Corporate plan;
- i) Reform Plans; and
- j) Early notification (3 month prior) of any such or foreseeable circumstances which could jeopardise the performance of the Authority in debt servicing or other loan covenants.

Section 7.01 of the contractual agreements also provides the actions to be taken by government in case of breach of its clauses.

The audit noted that the requirements for reporting as per the contractual agreement facilitate the preparation of the annual Contingent Liability report by the DCFMU. Therefore it is vital that the government guaranteed entity provides all information as per section 6 of the government guaranteed agreement on a timely basis.

An audit carried out on the reporting requirements noted several anomalies. Refer to the following for further details of the anomalies identified.

Whilst the requirements are clearly set out in the guarantee agreement for the guaranteed entity to submit information relating to government guarantee, observations found that the supply of information from the entities were not forthcoming. The audit noted that each year the Ministry of Finance has to formally write to the various guaranteed entities to remind them to provide the required information. As a result the Debt Management Unit found it difficult to validate information relating to guarantees, in particular the amount to be reported under Schedule 5 of the WoG Annual Financial Statement of the Statement of Contingent Liabilities.

- The guarantee agreement requires entities to provide the Ministry of Finance with information or details concerning security of guarantee; current and future soundness of the entity and details of any foreseeable circumstances, which could jeopardise the performance of the entity in debt servicing or other loan, covenants. However, the agreement does not specify the format and the specific supporting details for this information.



- The guarantee agreement also requires that the guaranteed entity to send in reports including the Statement of Financial Performance, Statement of Cash Flows and Statement of Annual Financial Positions. These reports are required to be provided on an half yearly basis suggesting the reports are unaudited.

The findings indicate that there is difficulty in enforcing the contractual requirements of reporting by agencies whose loans government have guaranteed. In addition, the requirement of submission of unaudited financial statement may have an impact on the Ministry making an accurate evaluation of the financial performances of these agencies to meet loan obligations which government is guaranteeing.

## **COMMITTEE RECOMMENDATIONS**

### **Determination of Public Borrowing Needs**

PAC concurs with the Auditor-General's Recommendation that the Ministry of Economy should:

#### **Recommendation 1**

Introduce strategies that will reduce the total debt to GDP ratio and maintain it below the 40% GDP threshold as required for developing economies such as Fiji.

#### **Recommendation 2**

Be more prudent and thorough in its assessment of submissions from stakeholders during the budget formulation as outcomes of all submissions from stakeholders determine the budget deficit, and consequently government borrowing needs.

#### **Recommendation 3**

Ensure that the budget system focuses more on reducing the variance between estimated and actual budget so that fiscal deficit is kept at minimal level.

#### **Recommendation 4**

Make adequate provisions during the budget process for its debt servicing costs.

### **Public Debt Reporting**

PAC noted that the recommendations of the Auditor-General has been attended to by the Ministry of Economy and therefore no longer agrees with the recommendation.

## **CHAPTER 6: Conclusion**

In view of the magnitude of the public investment that the government entities represent, the importance of the services they provide, and their economic significance, it is quite important that sufficient monitoring is carried out on GCCs and CSAs to ensure business continuity and adequate returns to Government.

As an observation, PAC notes a general trend of improvement across most, if not all Government entities.

While the instances of the mentioned issues have reduced there are issues that still need to be addressed as shown in the recommendations and Committee observations. These recommendations have been made in good faith, and we urge the relevant party for which the recommendation is made, to consider and respond accordingly.



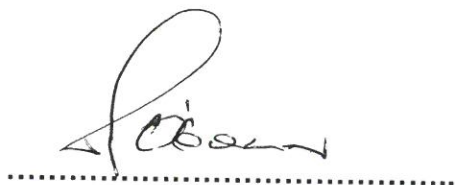
We, the Members of the Standing Committee on Public Accounts agree with the contents of this report:



**Hon. Ashneel Sudhakar**  
(Chairperson)



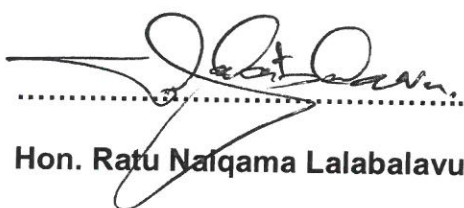
**Hon. Mohammed Dean**  
(Deputy Chairperson)



**Hon. Alexander O'Connor**  
(Member)



**Hon. Aseri Radrodro**  
(Member)



**Hon. Ratu Naiqama Lalabalavu**  
(Member)





# APPENDICES





## **APPENDIX ONE – LIST OF SUBMISSIONS**

- 1 Ministry of Employment, Productivity and Industrial Relations
- 2 Ba Town Council
- 3 Lami Town Council
- 4 Lautoka City Council
- 5 Nadi Town Council
- 6 Nausori Town Council
- 7 Suva City Council
- 8 Ministry of Local Government, Housing and Environment
- 9 Ministry of Infrastructure and Transport
- 10 Ministry of Economy





# MANAGEMENT OF NATIONAL EMPLOYMENT CENTRE (NEC)

PARLIAMENTARY PAPER	QUESTION	RESPONSE
General Questions	<p>Background information</p> <ul style="list-style-type: none"> <li>• Role and functions of NEC</li> </ul>	<p>*NEC was established under the NEC Act 2009 to provide social justice to unemployed persons through provision of targeted skills and competencies, as well as facilitate their participation towards sustainable employment.</p> <p>*NEC's primary objective is to boost employment creation and improving productivity nation-wide through a better governance framework and its core function is to consolidate all employment creation agencies in a "one-stop" quality service for all unemployed persons.</p> <p>*There are four (4) employment creation services established under the NEC Decree 2009 which includes the Formal Employment Service (FES), Fiji Volunteer Service (FVS), Self Employment Service (SES) and Foreign Employment Service (FORES).</p> <p>*To date only three of the Employment creation services have been launched namely: FES, FVS &amp; FORES.</p> <p>*Since 2011, the NEC operates from within the 7 Offices of the Ministry of Employment nation-wide comprising of Central/Eastern Division – Suva, West – Sigatoka, Nadi, Lautoka &amp; Ba and North – Savusavu &amp; Labasa.</p> <p>*NEC overall achievement since 2010 is attached as <b>Appendix 1.0</b>.</p>
	<b>(a) Key arrangements for NEC Existence and Operations</b>	
	1. Seven regulations have been developed as required by the NEC	*We have obtained the vetted copies from SGs Office, which we will go through before it is submitted to the Board thereafter gazetted. Timeline is 31 July,

	Decree 2009 which was subsequently reviewed in 2011. However, the Regulations are still waiting vetting from the SG's Office before gazetting.	2018 or before. The strategic intent in the design of the Regulations were to test the draft first on the ground, (given we starting NEC from ground zero) and from the practical learning, fine tune the regulations before gazetting.
	2. The NEC Board since 2011 has not been having the required number of meetings as prescribed under the NEC Decree 2009.	*Reason the NEC Board was not convened was due to the limited and restrictive environment surrounding the start of the NEC. Initially, there were no permanent staff appointment for NEC in the roll-out from 2010 until 2013, given that former PSC froze the new posts in the civil service. While the modernise NEC legal framework was gazetted, the posts and the budget was not approved to ensure the proper running of a new labour market institution with its governance framework. However since 2015, we managed to conduct consistent NEC Board meetings as per the NEC Act.
	3. The establishment of Self Employment Services (SES) is still awaiting implementation of Cabinet Decision 85 of 13 <sup>th</sup> March 2012.	*There is an overlap of this amongst other competing Govt Agencies, particularly the Ministry of Trade and Industry.
	4. The required number of staffing for NEC endorsed by Cabinet has not eventuated. The limited number of staff for NEC currently under the Ministry of Labour has greatly affected its operations in the centres.	*In 2013, a total of 16 established post was approved with its budget allocation and with the expansion of the Services in the Divisions, In addition, Volunteers were engaged to assist in the roll-out.
	5. NEC has not been effective in engaging strategic partners	*Since 2015, NEC have been effective in engaging strategic partners (Police/Foreign Affairs/Training Institutions/Health/ILO/Regional Countries/Volunteer Organisations/UNV)



	6. Practical application of Section 44 of the Decree is somewhat difficult	<p>*The NEC roll-out was done in the spirit of the new Employment Relations Act 2015 which promotes good faith employment relations, social justice and safe and productivity driven workplaces. Our strategic intent were to ride on these new culture and promote the NEC roll-out and appeal on the corporate social responsibility of employers rather than the "big stick" approach.</p> <p>The reality is to change a culture is not always easy, but the workplace environment is changing for the good, however, not as fast as expected.</p> <p>*Working with Fiji Higher Education on the review of the Training Package (LST). The NEC as a new labour market institution is ISO 9001:2008 certified since July 2016.</p>
	7. Training package for competency based and value based skill is not broken down into module to adequately cover ISO 9001 to ISO 2600.	
	<b>(b) Managing key activities of NEC</b>	
	1. Identification cards are not issued to the unemployed persons who have been registered with NEC.	<p>*Lack of finance – currently issuing NEC Numbers through letter heads. The budget requested initially to roll-out NEC was not allocated, thus we have to cut back on many areas of operations.</p>
	2. No evidence existed to indicate that a criterion is in place governing engagement of consultants providing professional counselling services	<p>*Yes no framework but working on it now with Fiji Higher Education on the content of both the Professional Counselling and Aptitude Test.</p>
	3. The NEC database has limited ability to generate some essential and required reports	<p>*Currently the vendors are working on the revamp of the database to generate the required reports needed by the Hon. Minister, PS, internal clients, CSOs, NGOs, other Government Ministries and stakeholders.</p>
	4. NEC was not able to meet their 2012 awareness target and conduct awareness for tertiary institutions	<p>*This is largely due to limited budget and manpower. <b>However, now with increased staff and budget we are exceeding targets.</b></p>

	5. The Centre has not been able to conduct the LST regularly throughout all the centres. The unavailability of a suitable venue has been a major hindrance.	*This is due to limited budget and manpower. However given the increase in staff and budget the Centre is meeting its Annual targets.	
	6. The current system of identifying the suitable employment skill training is not effective as there are still more NEC clients being absorbed into the permanent workforce.	* This is directly related to issue (3) above.	
	<b>(c.) Monitoring and Reporting activities of NEC</b>		
	1. The Centre has not prepared quarterly or bi annual performance reports as required under the given legislation	*The Centre provide reports to the NEC Board. The non-functioning of the NEC database which was suppose to generate reports did not eventuate thus the non submission of these performance reports. However, the NEC reports were submitted on a quarterly basis within the Ministry process and to account for its Annual targets are per the Ministry Corporate Plan.	
	2. Audit was not able to ascertain whether reports from the two agencies providing services not managed by NEC were prepared and submitted quarterly, bi-annually and annually by the responsible agencies	*The Reports were in fact submitted by both the two agencies upon completion of their activities. FNU provides individual reports on each client as well as the provider providing counselling services.	
	3. Review of the NEC Board papers prepared for the Board's recent	*With the absence of a Director, NEC Board Papers are vetted by the Team Leaders, Manager before it is submitted DS. Amendments made and forwarded	



	meeting found errors in the performance update of certain activities of the NEC.	to PS for her final comments. The NEC is still without a Director, however, we hope to get a new person in to ensure the quality of service delivery.
	4. Apart from NEC the other ECS agencies do not submit their annual report to NEC Secretariat that will enable them to integrate it as an integrated report of all the ECS.	*This is still a challenge given the non-implementation of the earlier Cabinet Decision of March 2012.
	5. The mechanism in place to monitor absorption of clients into permanent employment is not quite effective	*Currently working on a process to identify clients absorbed into permanent employment and under work attachments. The non –functioning of the database is a major factor to this which will soon be resolved.
	<b>(d) Overall conclusion</b>	
	In view of the limited funding and staffing, the audit acknowledges the great work done by the Ministry of Labour so far on the establishment and operations of the NEC. The NEC Board has also played a critical role over the years on the establishment and implementation of the NEC. Cabinet's commitment on the program is also evident through the endorsement of Cabinet Papers on the NEC submitted by the Ministry. However, the success and sustainability of the program is heavily reliant on the finalisation of the draft Regulations and the co-operation and	The NEC is certified to ISO 9001:2008 in July 2016. This is a mandatory requirement to ensure good governance and quality service delivery.

	commitment of other agencies that are part of the initiative	
	<b>(e) General Recommendation</b>	
	The Ministry of Labour should continue to follow up with the various agencies to ensure the full implementation of the Cabinet Decisions and requirements of the NEC Decree 2009 in respect to the set up and operations of NEC	The Ministry notes and acknowledges the oversight of the OAG for continuous service delivery.



# Appendix I.0

## Achievement of NEC since 2010

Activities	2010	2011	2012	2013	2014	2015	2016	October 2017	Accumulative 2010 - 2017
Registration	9,549	13,097	3,696	6,225	6,177	10,124	3,251	3,834	55,953
Professional Counselling	3,825	9,976	2,832	1,284	1,011	-	-	718	19,646
Aptitude Assessment	3,338	9,976	2,830	1,252	1,011	-	-	718	19,125
Life Skills Training	2,351	5,431	1,333	1,014	712	192	410	910	12,353
Employment Skills Training	152	2,360	184	-	250	-	35	155	3,136
Pre-Departure Training	-	-	-	-	-	-	66	210	276
Post-Arrival Training	-	-	-	-	-	-	-	68	68
Work Attachment	72	1,012	762	1,256	962	832	413	519	5,828
Volunteer	14	242	112	91	297	49	24	24	853
Local Employment	145	444	990	652	3,221	415	426	1,122	7,415
Foreign Employment	-	1	20	15	28	124	60	348	596
Public Awareness	-	68	65	78	138	190	117	194	850
MOU with Employers	-	65	58	70	119	84	59	42	497





## **Contractual Engagement by Municipal Councils-Lami Town Council.**

### **Background Information:**

#### **Role and functions of Lami Town Council.**

Lami Town Council was recognized as a town by ministerial declaration through the **Local Government Act in 1977**. It is a shoreline town in the north-western part of the greater Suva area and is the most compactly populated area in Fiji with 62.1 per cent of the country's total urban population. Lami is an industrial epicenter which is characterized by both low-elevation shoreline areas and mountainous topography. **Lami Town Council is responsible for certain elementary services, such as drainage, waste management traffic and enforcement, health promotion and welfare with some law-making powers on concerns such as garbage collection, building permits and local rate payments.**

#### **Organization structure:**

As per attached.

#### **No of staff:**

**Established:** 20

**Unestablished:** 18

**Casuals:** 10

**Total:** 48

## **Part B: Audit Findings**

Lami Town Council has engaged in contractual arrangement in year 2014 which was the purchase of a compactor ISUZU FTR dump truck (7 tons per load) and the leveling of the Tikaram Park with Construction Hire Limited.

The Council had written a formal request to the Ministry of Local Government, Housing and Environment for the procurement and outlined the benefits from the acquisition to the people of Lami. Moreover, the current status of the then truck was also highlighted in the report and also the details of the new compactor truck were given, for example, cost, brand, and model. An article was advertised in the Fiji Sun by Ministry of Local Government as Call for Applications – Challenge Fund on 4<sup>th</sup> January 2014. Council had submitted to the Ministry of Local Government on 15<sup>th</sup> January its Challenge Fund proposal for 2014. The Council had received a letter on 17<sup>th</sup> June, 2014 from the Attorney General's office advising Council to request for a 7 ton Isuzu FTR dump Truck at cost of \$170000 but Council had quoted a much lower quote than

that, hence, the Ministry had deposited \$141,000 to the council on 14<sup>th</sup> July 2014. A grant agreement was also signed between the Ministry and the Council on 21<sup>st</sup> July 2014.

To highlight from the fact the Council has been subsequent not only to tenders but other aspects of bookkeeping work from the Municipal Councils Manual as of 1992 it can be said that there has not been any Act or guideline that has been created by the Ministry of Local Government which can be utilized by the Council to be on the right track and depend on certain rules and procedures.. However, as of lately a draft of the Finance Manual for the Councils have been send and it would be such a good initiative once this guide is sanctioned and being incorporated as we will be able to branch to its guidelines and regulations.

In addition to this, Lami Town Council engaged with Construction Hire equipment for the leveling and backfill of Tikaram Park. According to the audit comments the contract does not include disputes, termination and confidential information. The above existed and the council has taken this into consideration and wishes to address this matter as soon as we engage ourselves with the next contractor.

***(a) Policy framework governing contractual engagements***

Detailed planning to cover activities is very imperative specifically for capital projects. The Council did not have any capital projects from 2012-2014 except for the leveling of the Tikaram Park and backfill, but it realizes the prominence of this therefore in 2015 and onwards it has detailed the scope of work for the projects conducted from 2015 and onwards .Council has sent to the Ministry of Local Government stage by stage updates as acquittals of Tikaram Park and Johnny Singh park in order to be safeguarded by internal control factors and have accurate record of its funds released by the Ministry and the expenditure incurred by the Council. As noted in the audit comments the council does not have a contract policy in place and uses the Manual of Accounts. As noted before, our council will work hand in hand with the Ministry of Local Government in implementing a new finance manual for all the councils to ensure that we are on the right track.

Risk assessment of contractual activities is important especially when engaging in constructing activities .The council should include this basically when we are developing or constructing parks and doing beautifications so that there are no adverse effects on the council boundaries and potential losses. For example in the construction of Tikaram Park, the Council conducted **Environment Management Plan** in order to safeguard its shore line and natural habitat and how to protect the environment. Other sources of risk especially for projects include, contract knowledge and capacity, resourcing, contract performance measurement, contract management capability, contractor performance and changes in circumstances.Lami Town Council will make sure that all these important details are followed when we deal with our next contractor.



***b.)Key Elements of Contractual Engagements***

Tender evaluations have not taken place in the year 2014 in Lami Town Council but in the year 2015 and 2016 due to the construction of Tikram Park proper tender evaluations have taken place and representatives from the Ministry were also present in evaluating the tenders.

Subsequently, the foremost factor in the audit findings that most of the councils do not have a tender evaluation process and criteria since the tender procedures have been followed from the Manual of Municipal Councils endorsed in 1992.

Council will be aligning its Tender Process criteria of what is used in the Fiji Procurement Office in order to be more alert in its tender process.

The council had engaged in the 2012 upgrading of sanitary services at Kalekana Settlement through the city wide project with PCN and Department of Housing. Our contractual agreements have incorporated key boundaries as the Acquittal's for the sanitary upgrading city wide project had been sent to the Department of Housing. Together with this the progress report, supporting documents of the acquittals on the work in progress in the Kalekana settlement had been also sent to the Department of Housing.

Documentation of this contractual activity may have been well orchestrated as all the relevant documents were firstly sent to the Department of Housing to ensure if the council was on the right track. Furthermore, as highlighted in the audit report

It can be said that internal control procedures may have not been followed in our contractors payment process since the person raising the LPO, does the vouchers, and later also does the cheques. This deficiency will be given priority to be solved but it is also important to note that due to some staff deficiencies the payment process may lack internal control factors but the processes are thoroughly checked and then endorsed by the senior officers before the payment is being made.

*(c.)Managing Contractor's Performance*

As per audit findings from 2012-2014 there has been the upgrade of the Sanitary Services at Kalekana Settlement. Most of the documentation of monitoring of contracted works have been highly monitored especially when the phases of our Tikaram Park. The Council has not conducted an evaluation process on the contractor's performances from 2012-2014 since there had been no major contractors involved in any work, but from 2015 onwards the contractors performances have been monitored at each stages by our health, Building Inspectors and Work Supervisor. After their analysis of the contractors work then the second or third stages continue. But now that this point is being highlighted we will take an immediate effect that this is highly practiced in the future and that we maintain separate worksheets or in the form of a report for separate contractors and monitor and report their performance on a daily basis. This report will be filed in the relevant contractors file and kept for audit and reference purposes.

Lami Town Council has a complain form which is been filled by our rate payers and the public. Our form includes section of service such as health, building, works, enforcement, street light and others.

The complaint forms are endorsed by our Chief Executive Officer with the feedback and action taken is also being considered.

These complain forms are all filed in the complaint register for reference and internal control purposes.



### **Conclusion**

I would like to thank the Office of the Auditor General in scrutinizing our accounts and also our capital projects. All the audit observations that have taken place and the auditor's comments are highly rated by our Council.

From our Special Administrator, our CEO and our Head of Department we thankfully accept some of the variances in our reporting and project management.

We give high regards to your comments and hereby the Council will make sure that all these important details are followed as soon as possible or in the near future so that we could abide by the Finance Regulations and have a better control of our organization.

Once again a big Vinaka Vakalevu.





[illegible]

**Permanent:** Rajendra Prasad, Alyaz Ali, Jona Turimate, Marisela Bola, Gurdeep Singh, Leone Baraki, Hari Charan Singh, Isei Sorolagiagi, Waisiki Nabobo, Saula Nauvi, Usaia Nazelevuki, Noa Vodobula, Akapusi Jone Waqa, Ratu Taifo Rauluni, Sandeep Singh, Timoci Ibeco, Jokotama Tomasi & Metuisela Koroi (18)

**Casuals Depot:** Iowane Sukanaisoro, Sefa Tuwai, Luke Lomaisalato, Kasimino Vua, Ropate Vuniwaqa & Watisoni Vecenayava (6)

**Casuals Office:** Sera Nasiliwata (Accounts), Taraiasi Wara (Health), Sala Wati (Admin), Josua (Traffic Enforcement) (4)

**Cashier/ Receptionist**  
Sheenal Prakash

Management of Multilateral Environmental Agreements – Ministry of Local Government, Housing & Environment (Ministry of Environment)		
Parliamentary Paper No.	Question	Answer
General Questions	Part A: Overview Background Information: Management of Multilateral Environmental Agreement	





# CONTRACTUAL ENGAGEMENTS BY MUNICIPAL COUNCILS



A Performance Audit Report of the Office  
of the Auditor General of the Republic of  
Fiji

The audit looks into contractual engagements by Municipal Councils in Fiji. The audit focused on three areas which include:

- Policy framework governing contractual engagements;
- Key elements of contractual engagements; and
- Managing contractors' performance.

The audit covered seven of the thirteen municipal councils in Fiji located within the Central and the Western Divisions.

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## 1.0 EXECUTIVE SUMMARY

Background	Some of the Municipal Councils service deliveries to the rate payers are performed by contractors mainly due to the lack of resources within the Councils. These contractors enter into contractual agreement with respective Councils with the common aim to provide quality service to raise living standards amongst the rate payers and the general community.
Coverage	The audit on Management of contracts in Municipal Councils focused on three main areas including policy framework governing contractual engagements, key activities of contractors' engagements and managing contractors' performance.

The audit covered seven of the thirteen municipal councils in Fiji.

Overall conclusion	None of the Councils visited have developed a policy governing the management of contractual engagements. Most the Councils visited were following tender procedures outlined in the Manual of Accounts for Municipal Councils in Fiji which was endorsed in 1992. Detailed planning of outsourced services were lacking in six of the Councils visited. Further to this risk assessment of contractual activities were not conducted by all the Councils visited.
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Generally records maintained on activities relating to contractual engagements needs to be improved. It is pivotal that contract files contain information relating to tender evaluations, contractual agreement, correspondences between the Council and the contractor and other key activities of the engagement. Equally important is the compilation of contracts inventory and contracts register to evidence the contracts undertaken by the Councils over the years.

There is also a need to separate parties currently involved in the evaluation and approval of tender proposals to ensure transparency in the tender process. The criteria for tender evaluation is also lacking in most of the Councils. Contractual agreements being entered into by most of the Councils needs to be reviewed to incorporate other key items highlighted in this report. A few of the Councils also need to have their agreements vetted by a solicitor. Stringent controls also need to be put in place to ensure payments made to contractors are within the requirements of the contract agreement.

Some evidence of monitoring of contractual engagement was noted to have been conducted by most of the Councils; however there have been lack of proper documentations to indicate the results of monitoring works. This anomaly was mainly attributed to the absence of a monitoring policy in place and non-specification of monitoring requirements in the contractual agreements. The evaluation of the contractors' performance and preparation of a contract performance report was not conducted by all the Councils. Such is the case mainly due to the non-inclusion of the requirement in the existing contractual agreement.



**Key findings****Policy framework governing contractual engagements**

- The Department of Local Government has no standard guideline in place governing contractual engagement to be used by all Municipal Councils.
- The Department Local Government has not reviewed the existing 1992 Manual of Accounts used by the Councils to reflect changes and development in the Councils
- Most of the Councils do not have detailed planning such as done by Suva City Council to cover all activities at the commencement of, during and after the contract period are conducted.
- None of the Councils have conducted risk assessment of contractual activities.

**Key elements of contractual engagements**

- Nausori Town Council did not have an engineer and head of the health to provide technical input in the identification of contracted works.
- Responsibility of tender evaluations and approving tenders are not separated.
- Most of the Councils did not have evaluation criteria to evaluate tender proposals.
- Contractual agreement did not incorporate key items.
- Existing contracts approaching expiry term were not reviewed prior to their renewal.
- Contractual agreements were not vetted by a solicitor in some Council.
- Documentation of contractual activities was generally lacking.
- Internal controls in the payment of contractors were lacking in some Councils.

**Managing contractors' performance**

- Documentation of monitoring of contracted works were lacking in most Councils.
- Nausori Town Council engaged a project manager to monitor works conducted by five contractors without proper provisions in the agreement on monitoring and reporting of the project manager.
- None of the Councils conducted an evaluation of contractors' performance following expiration of contracts.
- Monitoring, reporting and evaluation of contractors' performance were not included as part of the contractual agreement in most of the Councils.
- Complaints register were not updated in a timely manner in most of the Councils.

**General Recommendation** The audit recommends that each Council covered in this audit look into the issues raised in this report and work towards addressing the anomalies identified for their Councils.

## 2.0 INTRODUCTION

*This section of the report provides a brief overview of contractual engagements by Municipal Councils as well as reasons for the conduct of the audit.*

### 2.1 Background

- 2.1.1 Local governments play an important role in improving living standards of communities located within their municipal boundaries. In this context Councils are required to ensure that resources are used efficiently and effectively and services are provided to best meet the needs of the community and to improve the overall quality of life of people within the community.
- 2.1.2 Municipal Councils provide a wide range of services that improve standards of living for its rate payers, such as collection of household rubbish, maintenance of drainage and roads infrastructure, provision and maintenance of public utilities, sports facilities, recreation facilities, etc. The wide range of services required to be provided by Councils, and given the limited resources available to them, has led many Councils to contract some of its services to private contractors. Payments of contracts for such services constitute a significant portion of a municipal councils' expenditure.
- 2.1.3 The fundamental best practice principles that Councils should apply to every contractual engagements irrespective of the value and complexity of the arrangement include:
- **Value for money**  
Obtaining value for money does not mean a Council is obliged to accept the lowest price. The concept of value for money takes into account both costs and non-cost factors including quality, service and support and advancing the Council's priorities.
  - **Open and fair competition**  
All prospective contractors must be treated fairly in an open and transparent manner.
  - **Accountability**  
Council staffs are responsible for the actions and decisions they take in relation to contractual engagements and for the resulting outcomes. Staffs must ensure that they provide adequate and reliable advice to the relevant authorities to allow sound decisions are made on contractual engagements.
  - **Risk management**  
All contractual engagement carries some level of risk. It is vital for Councils to recognise these risks and develop appropriate strategies to deal with them.
  - **Probity and transparency**  
Councils must conduct their business in a fair, honest and open manner demonstrating the highest level of integrity consistent with the public interest.



## 2.2 Legislation governing municipal councils operations

2.2.1 Although they vary in sizes, geographies, populations and resources, all municipal councils are governed by the Local Government Act (Cap 125). Altogether there are a total of 13 Municipal Councils established around the country, consisting of eleven (11) town councils and two (2) city councils.

2.2.2 Under Section 90 of the Act, Municipal Councils are required to;

- (a) promote or establish and maintain public utility services including public transportation;
- (b) construct or maintain any public works which in the opinion of the council may be necessary or beneficial to the municipality; and
- (c) contribute to the cost of the matters referred to in paragraphs (a) and (b).

2.2.3 Every Council is required to undertake activities lawfully and may expedient to promote the health, welfare and convenience of the inhabitants of the municipality and to preserve the amenities or credit thereof.

A Council may make by-laws prescribing forms, fees, matters and things which are contemplated by this Act or are required or permitted by this Act to be prescribed, or which appear to the council to be necessary or convenient for the peace, good order and government of the municipality and for the purpose of effectually carrying out the provisions of this Act, or for better effecting the operation, objects and purposes thereof.

## 2.3 Reasons for undertaking the audit

2.3.1 The choice of contracting services to deliver programs and services required is considered a risk. Since payments of contract services constitute significant expenditures, it is susceptible to collusion and mismanagement.

2.3.2 Previous financial audits conducted have highlighted a number of deficiencies with regards to how contracts are tendered, issued, managed and controlled by Municipal Councils, and have raised some concerns on non-compliance with required policies, laws and regulations.

2.3.3 The contracting process and directives on contracting have not changed and as such an audit in the area could also lead to some improvements such as policy reviews or development, and improved contracting practices in municipal councils.

## 3.0 AUDIT OBJECTIVES SCOPE AND METHODOLOGY

*This section of the report describes the objective and scope of the audit. It also discusses the methodology utilised to gather information for the audit.*

### 3.1 Audit objectives

3.1.1 The overall objective of the audit is to determine the effectiveness of municipal councils in managing contracts of services by examining:

- the policy framework governing contractual engagements;
- key elements of contractual engagements; and
- managing contractors' performance.

### 3.2 Audit scope

3.2.1 The audit focused on contracts executed by 7 of the 13 municipal councils [i.e. 4 from the Central division and 3 from the Western division] for the years 2012 to 2014. The Councils are listed in the table below:

Table 3.1: Councils visited

Division	Councils
Central	<ul style="list-style-type: none"> <li>• Suva City Council</li> <li>• Nausori Town Council</li> <li>• Nasinu Town Council</li> <li>• Lami Town Council</li> </ul>
Western	<ul style="list-style-type: none"> <li>• Lautoka City Council</li> <li>• Nadi Town Council</li> <li>• Ba Town Council</li> </ul>

3.2.2 The audit did not look into any contracts entered into under the old local government set up i.e. prior to 2008, however the audit may use any guideline or system from those years that is currently valid and used by the Councils.

### 3.3 Audit methodology

The audit used the following methodology to gather information for the audit:

- *Documentary review*

The audit reviewed various documents to gather information on the management of contracts in the municipal councils. The major documents reviewed are listed below:



Table 3.2: Details of documents reviewed and source during audit

Municipal Council	Documents
Ba Town Council	<ul style="list-style-type: none"> <li>• Annual Corporate Plan 2011</li> <li>• Strategic Plan 2010 – 2015</li> <li>• Contract file</li> <li>• Complaints register</li> </ul>
Lami Town Council	<ul style="list-style-type: none"> <li>• Annual Corporate Plan 2010</li> <li>• Annual Corporate Plan 2012</li> <li>• Strategic Plan 2010 – 2014</li> <li>• Contract Agreement between Nasinu, Lami and Nausori Town Councils</li> <li>• Contract file</li> <li>• Complaints register</li> </ul>
Lautoka City Council	<ul style="list-style-type: none"> <li>• Annual Corporate Plan 2011</li> <li>• Annual Corporate Plan 2012</li> <li>• Contract Agreement</li> <li>• Contract file</li> <li>• Complaints register</li> </ul>
Nadi Town Council	<ul style="list-style-type: none"> <li>• Corporate Plan 2003 – 2012</li> <li>• 5 Year Strategic Plan 2010 – 2014</li> <li>• Contract file</li> <li>• Complaints register</li> </ul>
Nasinu Town Council	<ul style="list-style-type: none"> <li>• Contract documents</li> <li>• Payment vouchers to contractors</li> <li>• Minutes of tender meetings</li> <li>• Complaints register</li> </ul>
Nausori Town Council	<ul style="list-style-type: none"> <li>• Contract documents</li> <li>• Payment vouchers to contractors</li> <li>• Minutes of tender meetings</li> <li>• Complaints register</li> </ul>
Suva City Council	<ul style="list-style-type: none"> <li>• Contract documents</li> <li>• Payment vouchers to contractors</li> <li>• Minutes of tender meetings</li> <li>• Annual Corporate Plan 2010</li> <li>• Annual Corporate Plan 2012</li> <li>• Strategic Plan 2010 – 2014</li> </ul>

- *Interviews*

Interviews were carried out with the following individuals in the various municipal councils.

Table 3.3: List of Interviewees

Municipal Council	Officer
Ba Town Council	<ul style="list-style-type: none"> <li>• Chief Executive Officer</li> <li>• Accountant</li> </ul>
Lami Town Council	<ul style="list-style-type: none"> <li>• Acting Town Clerk</li> <li>• Acting Senior Accounts Officer</li> </ul>
Lautoka City Council	<ul style="list-style-type: none"> <li>• Manager Finance</li> <li>• Accounts Officer</li> <li>• Manager Health</li> </ul>

Nadi Town Council	<ul style="list-style-type: none"><li>• Manager Finance</li><li>• Manager Health</li><li>• Manager Engineering</li></ul>
Nasinu Town Council	<ul style="list-style-type: none"><li>• Internal Auditor</li><li>• Engineer</li><li>• Health Inspector</li></ul>
Nausori Town Council	<ul style="list-style-type: none"><li>• Special Administrator</li><li>• Finance officials</li></ul>
Suva City Council	<ul style="list-style-type: none"><li>• Acting Chief Executive Officer</li><li>• Director Engineering Services</li><li>• Administration Secretary</li></ul>
<ul style="list-style-type: none"><li>• Other</li></ul>	

Correspondences through e-mails were also made to clarify issues.



## 4.0 POLICY FRAMEWORK GOVERNING CONTRACTUAL ENGAGEMENTS

*This section of the report looks into the policy aspect governing the identification, awarding, execution and management of contractual engagements within the municipal councils. The area also covers contract planning and risk assessment.*

- 4.0.1 All Councils should have a documented contract policy in place to assist them in managing contractual arrangements. The purpose of a documented contract policy is to promote value for money, reduction of risk and fraud, waste or other irregularities.
- 4.0.2 Contract planning and management covers all activities at the commencement of, during and after the contract period. It is the process that ensures both parties to a contract fully meet their respective obligations as effectively and efficiently as possible, in order to continually deliver both the business and operational objectives required from the contract.
- 4.0.3 Risk assessment should be an integral part of all aspects of contractual engagements. This requires the identification of risks and where appropriate the implementation of risk treatment. This in turn involves identifying the events where risks are likely to be the highest and/or adverse effect of an event or occurrence is likely to be the greatest.
- 4.0.4 Success in contract management occurs when the arrangement of service delivery continues to be satisfactory to both customer and supplier, expected business benefits and value for money are being delivered and realized, the supplier is co-operative and responsive, disputes are rare and the contract is fully compliant and satisfies both legislative and audit requirements.

### 4.1 Existence of effective policy framework

- 4.1.1 A written policy should be in place for all Municipal Councils to provide guidance on aspects of contractor selection, management and monitoring of contractors and the legal issues pertaining to contract implementation.
- 4.1.2 Suitable policies to support the management of contract should be established, maintained and communicated.
- 4.1.3 The Manual of Accounts for municipal councils should be reviewed to take into account changes in developments and expectations having an effect on the subject matter.
- 4.1.4 Discussions with responsible officers in the Municipal Councils revealed that there is no uniform policy for all municipal councils governing the contractual engagements.
- 4.1.5 None of the Councils visited have a policy in place to govern the management of contracts. Most of the Councils have developed and adopted preferable Tender Policies to guide the respective tender processes.



In addition, all Councils have been using the Manual of Accounts that was introduced in 1992. The idea behind this Manual was to provide an accounting manual for municipalities originated from a discussion that took place between the Auditor General and the Local Government Association some 10 years back. The idea was suggested by the Auditor General at the time because of the obvious need to institute uniform and appropriate accounting standards and procedures for the effective control and management of municipalities' finances. For various reasons the municipalities have been using different accounting standards which over the years have proved somewhat inadequate for proper control of their finances.

- 4.1.6 The table below summarises our findings on existence of a contract policy within the Councils visited.

Table 4.1: Existence of contract policy

Council	Is a contract policy in place?	Audit comments
Ba	No	Accounting manual is in draft form and it has a section on contract and contractual payments. The manual is yet to be presented to council for approval
Lami	No	The Council uses the Manual of Accounts.
Lautoka	No	The Council's accounting policies and procedure manual is in a draft form and is yet to be approved by the Council.
Nadil	No	The Council operating procedures is yet to be approved by the Council. The Council is following the Manual of Accounts.
Nasinu	No	The Council has a Tender Policy and the old Manual of Accounts in place to guide them.
Nausori	No	The Council is currently using a tender policy which is currently under review.
Suva	No	There is a procurement instruction but staffs were not using it.

It can be interpreted from the above table that there is no specific policy on management of contracts. Most of the Council are following tender procedures stated in the Manual of Accounts for municipal council which was endorsed in 1992.

- 4.1.7 The use of draft policies in some of the Council indicates that such policies have been adopted without proper endorsement of management. In addition untimely review of the existing manual indicates that required changes and developments relating to contract management are not incorporated as part of the document.

## 4.2 Existence of contract planning

- 4.2.1 Contract planning ensures delivery of desired project outcome. It considers a broad range of factors including driving continuous improvement, value preservation and additional value creation, performance management, risk mitigation, role clarity, and the value of contractors' relationship, and quality assurance.
- 4.2.2 Our review on the contract planning gathered that most of the Municipal Councils have plans for capital projects and development in their jurisdiction. This is incorporated in the



form of capital works program and with some Council and is inserted as part of the capital budget. The respective Councils formulated a 5 years Strategic Plan for 2010 – 2014 which incorporates the strategic plan for capital projects. However, audit noted at this planning stage, most of the Councils have not decided on the project works that will be contracted.

Plans for capital projects usually planned out by the different departments within one Council. For example, the engineering department provides plan for the construction works such as ground development, roads infrastructure repairs, etc. while the building department provides plan for any building development projects, repairs and maintenance.

4.2.3 For the Councils that were visited, except for Suva City Council all other Councils showed no evidence of detailed project planning conducted on contractual works undertaken. For the Suva City Strategic Capital Project Plan, when a project is identified, the following details were specified:

- i. Different tasks name with an identification number
- ii. Duration of the project
- iii. Starting date
- iv. Finishing date
- v. Work schedule that shows the time period when a task ID needs to be completed.

4.2.4 For the remaining Councils visited the following were noted after our review of the contract planning system;

Table 4.2: Observations on contract planning system

Councils	Existence of contract planning?	Audit comments
Ba	No	The project planning for the Council is covered in the 5year strategic plan from 2010 – 2014. The plan has been prepared after consultation with the stakeholders. The plan covers the review of the current process and the identification of infrastructure and implementation and changes that has to be made in a five year period.
Lami	No	Capital projects identified with its estimated costs incorporated in the Strategic Plan 2010-2014.
Lautoka	Yes but no specifications provided	The Council has a strategic plan (5yr plan) for improvement of infrastructure. The formulation of the strategic plan involves various stakeholders and their views were also incorporated in the plan.
Nadi	No	Indications were made that a strategic plan exists but no copies were provided to audit.
Nasinu	No	No capital project plan was provided from Engineering Department; however capital expenses were incorporated in the budget.
Nausori	No	No capital project plan was provided. There were no HODs for Engineering, Health, and Building to prepare the plans. However, capital expenses were incorporated in the budget but no project work details provided.



- 4.2.5 Absence of key details in project planning may lead to projects not delivered as planned by the Council.

### 4.3 Risk assessment

- 4.3.1 Risk assessment for contractual purposes comprises those activities associated with identifying and controlling the risks that may potentially affect the successful fulfilment of the contracted work.
- 4.3.2 The following table detailed some of the key sources of risk and examples of risks that needs to be considered when contracting services to an external party.

**Table 4.3: Sources and examples of risk**

Sources of risk	Examples of risk
Contract management knowledge and capability	<ul style="list-style-type: none"> <li>• Lack of understanding of Council contractual policies and reporting requirements.</li> <li>• Lack of experience in the management of contracts.</li> <li>• Lack of training in the area of contract management.</li> </ul>
Resourcing	<ul style="list-style-type: none"> <li>• Inability to obtain and retain necessary level of resources including staffing advice.</li> <li>• Failure to obtain senior management support and involvement.</li> <li>• Insufficient time to develop contractual agreement.</li> </ul>
Contract performance measurement	<ul style="list-style-type: none"> <li>• Failure to specify performance indicators that can be cost effectively measured.</li> <li>• Failure to link contract payment to satisfactory performance.</li> <li>• Failure to establish cost-effective performance monitoring and assessment arrangements.</li> </ul>
Contract management capability	<ul style="list-style-type: none"> <li>• Failure to have sufficiently skilled and experienced resources to effectively manage contractual services</li> <li>• Failure to act on contractor under-performance</li> </ul>
Contractor performance	<ul style="list-style-type: none"> <li>• Failure to provide services on time to agreed quality and standards</li> <li>• Failure to adhere to agreed budget</li> <li>• Failure to comply with contractual agreement provisions</li> <li>• Fraud and/or unethical conduct by a contractor</li> </ul>
Changes in circumstances and/or requirements	<ul style="list-style-type: none"> <li>• Contract changes not dealt with as contract variations</li> <li>• Contractor not prepared to agree to contract variations to accommodate changes in entity requirements</li> <li>• Changes in circumstances not managed in a timely manner</li> </ul>

- 4.3.3 Our audit at the seven Councils visited gathered no evidence to indicate that risk management has been addressed in detail in all activities relating to contracting of services.
- 4.3.4 The effective management of risks attached to contractual activities has the potential to save the Councils considerable monies as well as ensuring that the Councils are deriving maximum return from monies invested in contractual works.



## **RECOMMENDATIONS**

### **Department of Local Government**

- The Department should review the existing Manual of Accounts used by the Councils to reflect changes and development in the Councils. The revised Manual should include a standard guideline on contractual engagements.

### **Ba Town Council/Lami Town Council/ Lautoka City Council/Nadi Town Council/ Nasinu Town Council/Nausori Town Council**

- The above Councils should ensure that proper project planning is conducted. Project plans should include programmed objective and description, plan of work and methodology, sources of information, deliverables of the programme, required expertise of the service provider, time schedule and management structure and reporting.

### **All Councils**

- All Councils should conduct continuous risk analysis and assessment throughout the contractual period in order to effectively manage the risks that arise.

## **Management Comments**

### **Department of Local Government comments**

*No comments received*

### **Ba Town Council comments**

*Policy Framework Governing Contractual Engagements - The above Councils should ensure that proper project planning is conducted. Projects plans should include programmed objective and description, plan of work and methodology, sources of information, deliverables of the program, required expertise of the service provided, time schedule and management structure and reporting. Council will follow the advice from Auditor General and will monitor and continuously assess the contractual works*

### **Nadi Town Council comments**

*Policy Framework Governing Contractual Engagements - The Council does not have a separate policy for managing contractual agreements but merely follows the Manual of Accounts. Nadi Town Council agrees that there is no detailed project planning schedule but has the following details as mentioned below:*

- *Different Task Name*
- *Budget Allocation.*

*We will make sure that the details as outlined on page 11(4.2.3) will be incorporated in the future projects.*

*From the past review done by the Office of the Auditor General, Council has made improvements governing the Policy Framework for Contractual Engagement in terms of Risk Assessment but this is only evident in contracts that involves large infrastructure building where consultants are engaged to cover the monitoring of the projects and the risk associated with the project planning. Due to the council not having appropriate human resources capabilities, it has been emphasised that the total contract oversight is outsourced to specialists who are equipped with the skills and capabilities to manage the contract. Nevertheless, the council project team also assists the consultants to see that the project is in line with the scope and time for the deliverance of the entire project.*

*It has become a necessity that the contractors have public liability coverage and also covers for workmens compensastion to mitigate the risk associated with the Council activities.*



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### Nasinu Town Council

*The Nasinu Town Council fully support the recommendation made that the existing Manual of accounts for the Municipal Councils in Fiji should be reviewed. It would be of great benefits to the Councils if the revision also takes into account all the financial, administrative and any other issues related to the operations of Municipal Councils. In this way the Municipal Councils will have a uniformed policy for running the Councils.*

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*The recommendation on the proper project planning will be discussed with the section concerned and will be implemented immediately.*

*Risk analysis and assessment throughout the contract period will now be carried out by our Internal Auditor.*

### Nausori Town Council

- 1. A special monitoring policy shall be established by council to ensure amongst other things requirements of documentation of monitoring activities.*
- 2. Council has established a resolution where overall evaluation of a contractual arrangement (including Human Resource) is undertaken following expiration of the contract.*

### Suva City Council comments

*Auditor General's comments are noted that the Council is generally in compliance. In absence of a revised Contract Policy in place by MLG, we do have the Procurement Procedure in place. We'll ensure all staff handling procurement issues are trained and follow same.*

*At the outset, as a municipality, proactively our most desirable goal is where possible to completely eliminate the risks and at places where it cannot be eliminated is to minimize it. Risk assessment is somewhat a new concept now being factored into Contract management which was not separately incorporated into conventional contracts but mostly embedded in. This does not mean that we do not manage risks. Under the Agreements it is a prerequisite that each Contractor provides following Certificates of Insurance as a strategy to transfer greater percentage of the risk;*

- Performance Bond*
- Public Liability coverage*
- Workmen's compensation*

*Besides because Council is a public entity we have our own comprehensive Public Liability coverage with our Insurance Company. With regards to maintenance Contract administration, claims arising out of non-performance by the ratepayers against Council is very minimal. The type of work we do is basic municipal services through engagement of Contractors. A service contract generally includes terms about a contractor's labour, time or effort to perform a service. This is really a day-to-day cleansing service issue does not directly constitute of financial loss to Council, Contractor or the ratepayer. In essence if service is delayed by the Contractors, then Council has a contingency plan as a back-up flying gang who quickly move in to complete. Substantial potential risks are eliminated in our rigid screening process when we choose the right Contractor.*

*Again, the contract is a primary document, which is reviewed as & when required to help those involved to know and respect the roles of the parties to the contract, among other things. Needless to stress that appropriate and timely performance monitoring and documentation, and maintaining a business relationship are important contributors to successful service contract administration. When choosing a municipal entity as a service provider, the Municipality retains accountability for service provision and the success of the municipal entity despite the fact that the Municipality has outsourced the function. The Council is explicitly obliged to ensure the municipal entity is managed responsibly and transparently, and*



*meets its statutory, contractual and other obligations. Some strategies adopted by the Council to minimize risks are as follows*

**Meetings** - We conduct Contractors meetings before the contract work begins. Such meetings may help clarify the procedures to be used during the performance of the contract work and enable management & contractors involved to better understand various perspectives and expectations.

*This approach may help build a strong relationship based on cooperation and mutual respect. Such a relationship may later help the contractor and municipal staff to reach a mutually satisfactory resolution to any contract performance issue should it arise. Besides we also have quarterly meetings where all the Contractors are present to discuss issues concerning work performance and other contractual related issues. These face-to-face meetings are all important in building a close healthy working relationship. When the municipal staff and the contractor already have a professional relationship in place, these*

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*preliminary meetings often focus on changes in the work environment since the previous contract work was carried out.*

**Performance Monitoring** - Monitoring the contractor's performance provides information needed to help ensure that contracted services are being delivered. It may also strengthen accountability, help improve performance, stimulate productivity and creativity. We have in place an acceptable level of performance system in place on daily basis, through checklist and reporting mechanism.

**Relationship Management** - Relationship management is about understanding the needs of contractors and satisfying those needs while building trust between all parties. Sound contract administration is held together by people, not by forms, surveys, diaries or other monitoring tools. It often depends more on the skills of the contract monitors than on particular monitoring methods or forms used. With many years of experience our Field Staff are able to attain this essential expertise.

*There is always an element of "trust" we understand as a non-written agreement between parties, based on friendship, respect, past experiences, convenience. It is less specific than the contract in terms of regulations, price, expected return and way of managing disagreement. From our experience even the most stringent of the Contract will practically become difficult to manage if the element of trust is missing. In municipal service delivery contract the services must go on as opposed to practical solution on Contracts being abandoned, taking legal action against the party is both cumbersome and costly and if anything financial pay-back hardly comes our way.*

**Payment system** - Our payment system is on a retrospective mode meaning the Contractors invoice upon completion of works on a monthly basis. There is no advance payment released. So always we pay for the value of works done, which in any case will always be below the Contractual price. More over there is provision in the Contract for penalty clause where appropriate deduction is made for work/activities not done or for that matter not performed up to standard.

#### Further OAG Comments

- **Suva City Council**

The Council's initial response only described processes and procedures followed by the Council for tender and contracts. Following further consultation, the Council agrees that it will incorporate risk management in future contracts and tenders.

- **Nausori Town Council**

Further discussions with the Council's Chief Executive Officer confirmed that initial assessments for project planning are conducted by technical personnel from engineering and building sections. Considerations determine how the projects will be implemented (methodology) and resourced, that is, whether projects will be fully outsourced (i.e. General contracts whereby contractor provides all labor and materials, and the Council's technical officer will supervise works); partly outsourced (i.e. Labour contract where the Council provides materials and the contractor provides labour only); or the project is completely undertaken by the Council (in-house work).

~~The Council agreed that continuous risk analysis and assessment is not done throughout the contractual period.~~ However the Council considers in house works as having high risk compared to outsourced contracts as projects are managed internally and all resources are provided by the Council. Fully outsourced contracts pose less risk as they

only require overview monitoring and validation of work at the end of the contract.

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## 5.0 KEY ELEMENTS OF CONTRACTUAL ENGAGEMENTS

*This section of the report looks into key elements encompassing contractual engagements by the Councils. This includes the human resources involvement, tendering of contractual works, records management and payments of contractors.*

- 5.0.1 Human resources play a critical role in the proper management of contracts within the Councils. As such the Councils should ensure that staffs have the capability to effectively administer activities relating to contractual engagements.
- 5.0.2 It is pivotal that tenders are called for all contracting works planned by the Councils. Tendering of such works clearly indicates transparency in the contractual engagements and ensures value for money is achieved.
- 5.0.3 All records that are created and received in contractual arrangements, whether paper based or electronic, should be captured in the Councils recordkeeping system. A systematic approach to recordkeeping at the beginning of the contractual engagement and throughout the contracting cycle will assist the Council to provide evidence of business conducted and decisions made, manage legal and other risks, and meet its accountability obligations. As such, keeping good records should be seen as an integral part of, rather than incidental to, contracting activity.
- 5.0.4 Payment of contractors by the Councils should follow a proper process. The Councils should ensure that payments are made when works or services are conducted to the satisfaction of the Council and within the requirements of the contractual agreement.

### 5.1 Human resources involvement in contractual works

- 5.1.1 Staffs involved in contracting arrangements should have at a minimum a broad understanding of the policy framework as well as practical work knowledge of contracting practices that apply to the particular contracting activity in which they are engaged.
- 5.1.2 Technical expertise should be sought externally by the Council if it is not available in-house or if required.

#### 5.1.1 Technical expertise in the identification of contracted works

- 5.1.1.1 The identification of works or projects to be contracted by a Council should follow a rigorous and detailed consultation and evaluation process. Technical expertise is critical in the identification of such works.
- 5.1.1.2 Under the current practice in most Council, the responsibility of identifying the contract of services is done by the different Departments within the Councils. It was noted that all works contracted out by the Councils were results of initiations proposed by the technical personnel in their various Departments.



- 5.1.1.3 The different projects contracted out by the councils are directly related to the various departments that exist within the Council. Tabulated below are the three main departments that commonly exist in most council with details of works to be contracted:

Table 5.1: Main departments in councils visited and works identified to be contracted out

Department within council	Responsible Technical Personnel	Works usually identified by the department
Health & Environment	<ul style="list-style-type: none"> <li>• Director Health Service</li> <li>• Senior Health Inspector</li> <li>• Health Inspector</li> </ul>	<ul style="list-style-type: none"> <li>• rubbish collection</li> <li>• transportation to the rubbish dump</li> <li>• other hygiene service.</li> </ul>
Works	<ul style="list-style-type: none"> <li>• Director Engineering Service</li> <li>• Senior Engineer</li> <li>• Engineer</li> </ul>	<ul style="list-style-type: none"> <li>• cutting of the grass.</li> <li>• maintenance work on the roads.</li> <li>• upgrading of public utility facilities e.g. picnic parks, walkways inside the town and city boundaries.</li> </ul>
Building	<ul style="list-style-type: none"> <li>• City/Town Planner</li> </ul>	<ul style="list-style-type: none"> <li>• maintenance or repair of existing buildings.</li> <li>• construction of new building.</li> <li>• renovation and upgrading of buildings.</li> </ul>

- 5.1.1.4 Audit noted that for all Councils visited only Nausori Town Council did not have an Engineer and Health Head for certain period but there has been continuous project work on both departments contracted out indicating the absence of technical input in the identification of projects for contracted purposes for the two departments.
- 5.1.1.5 In the absence of technical expertise the Council may end up identifying the wrong projects to be contracted out which may result in the Council incurring additional costs on the specific work then that initially planned.

## 5.1.2 Contract management skills and knowledge

- 5.1.2.1 A range of skills and knowledge are required throughout the contracting stages. The types of skills and knowledge required vary with the different stages of contracting services and with the size and nature of the services required. As such it is critical that officers of the Councils involved in managing contracts are appropriately trained in the areas of contract management.
- 5.1.2.2 The successful management of contractual works would generally require skills and knowledge in the areas outlined below:

Table 5.2: Contract management skills and knowledge

Skills and knowledge	Details
Interpersonal relationship and	<ul style="list-style-type: none"> <li>• Undertake tasks in a motivated and professional way</li> <li>• Build strong relationships.</li> <li>• Encourage co-operation and communicate orally in writing.</li> </ul>
Project management	<ul style="list-style-type: none"> <li>• Plan, schedule, organise work, manage tasks and consult with stakeholders</li> <li>• Establish relationships to get tasks done in a timely way</li> </ul>



Managing contractors	<ul style="list-style-type: none"> <li>• Understand tender criteria and evaluations</li> <li>• Able to understand and ensure compliance of contractual agreements.</li> </ul>
Performance	<ul style="list-style-type: none"> <li>• Provide feedback both positive and negative</li> </ul>
Problem solving	<ul style="list-style-type: none"> <li>• Have positive approach to solving problems</li> <li>• Encourage mutual co-operation to address issues</li> <li>• Have the ability to make decisions in circumstances where there may not be full knowledge of all relevant facts in the available timeframe</li> </ul>

5.1.2.3 It was noted that the Councils officers involved in the contract works process generally lack some of the skills and basic knowledge of contractual works. Officers in charge of handling tenders have not undertaken any formal training on contracts management and/or tender process including monitoring of contractual works.

5.1.2.4 Training of officers on contract management has the potential to ensure proper and effective management of contracts by officers of the Councils.

## 5.2 Tendering of contractual works

5.2.1 The Councils should ensure that tenders are called for all contracting works/services. Tendering of such works indicates transparency in the contracting services and allows the Councils to secure the right contractor to carry out the work.

5.2.2 A proper and transparent process should be in place governing the evaluation of tenders. This requires the existence of a proper evaluation criteria and transparent evaluation of all tender proposals.

5.2.3 It is also important that the Councils maintain proper documentation to evidence all activities relating to the contractual engagement.

### 5.2.1 Responsibility of evaluating and approving tenders

5.2.1.1 To ensure transparency in a Council setting it is important that the responsibility of evaluating tenders and approving tender allocations are conducted by two separate parties.

5.2.1.2 Scrutiny of the tender minutes in most Council revealed that Council officials made up the committee members that make decisions on the opening and vetting of tenders received. The members of the committee mainly comprise of Heads of Departments (HODs) who are also the parties responsible for proposing works to be contracted.

5.2.1.3 Audit further noted that in most of the Councils visited the Heads of Departments are also the main party regarded as the Council that deliberate on the awarding of tender. Refer to the following table for details:



Table 5.3: Details of tender deliberations

Municipal Council	Details of tender deliberations
Ba	Council has two meetings. The first meeting is the tender committee meeting where they analyse and prepare a report on the applicants. Tender reports is discussed in the staff and tender board meeting. The final approval is sought from the council meeting and once approved the approved tender letter is issued to the successful tenderer.
Lami	The tender committee analyses the tenders and submit the report either to the ordinary council meeting before its onward submission to the full council meeting.
Lautoka	Tender committee opens the tenders which comprises of the Heads of Sections who analyses the applicants and a report is prepared during the Development and finance committee meeting. Once they approve on the tenderer the final approval is sought from the full council meeting before the tender letter is being issued.
Nadi	<p>Two meetings are conducted. First meeting is the tender committee meeting where they open the tender box and analyses the applicants. Once the report is presented either the following meetings the Development, Finance or Engineering depending on the nature of the tender.</p> <p>Further to the above, the departments involved are as follows:</p> <p>Health – Garbage Contract</p> <p>Building – Infrastructure Building</p> <p>Engineering- Services and other works</p> <p>Finance – IT</p> <p>In the first meeting where the tender is been opened, the Council is also working towards opening the tenders right after the closing time and the contractors are also been invited with a Police Officer. In this meeting the tenders are opened and the tender sum is also disclosed and recorded in everyone's presence and the tender documents are either signed by the SA or CEO.</p> <p>The whole tender documents are then given to the respective HOD who will analyze and provide a detailed submission in the respective HOD Committee monthly meeting for further deliberation and selection of the contractor to be engaged.</p>
Nasinu	A meeting titled " <i>Finance &amp; Tender Sub-Committee Meeting</i> " is called where all HODs are committee members. The SA usually chair the meeting and the HODs will have to provide proposals on the respective projects contracts which favor the Council to undertake.
Nausori	<p>The Council has two separate meetings held to discuss the tender for contracts.</p> <ul style="list-style-type: none"> <li>The first meeting is called "<i>Opening of Tender Documents Meeting</i>" where there is no restriction to the members of the Committee and any of the TC officials present at the meeting can chair the meeting.</li> <li>The second meeting is made up of the individual Department's "<i>Sub Committee Meeting</i>" where the Special Administrator usually chairs the meeting.</li> </ul>
Suva	<ul style="list-style-type: none"> <li>The day and time a tender closes a meeting is held where the tenderers and public are present as well. The staffs from S.C.C are present including Directors of each section, City Lawyer, Administration Secretary and the Special Administrator. Tenders are opened and announced. As soon as the bids are announced the meeting ends.</li> <li>All the tenders submitted are evaluated on the documents furnished. This is discussed in the monthly council meeting held each month.</li> </ul>

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## **5.2.2 Evaluation and documentation of tender**

5.2.2.1 The evaluation of tender responses is the most important aspect of the value for money consideration. As such it is essential that decisions should be taken strictly on the basis of evaluation criteria to appropriately evaluate tender responses and justify selection of the successful supplier.

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5.2.2.2 Tenders should also be evaluated by an officer competent to do so. Where expertise is not available within the Council for evaluation of tenders, local and/or overseas consultants, if necessary, will be engaged to evaluate tenders, local and/or overseas consultants, if necessary, will be engaged to evaluate tenders.

5.2.2.3 Appropriate documentation tender evaluations should be made to ensure that the process has been adhered to in a transparent manner. Risk assessment also needs to be undertaken on tenders received.

5.2.2.4 The common tender evaluation criteria used by most the councils are that the lowest bidder usually awarded with the contract. However, the lowest bidder approach cannot be applied if there are high technical works that require high cost equipment and service providers. Our audit at the various Councils visited noted the following observations in respect to the existence of tender evaluation criteria:

Table 5.4: Details of evaluation criteria

Councils	Existence of documented tender evaluation criteria?	Audit comments on criteria
Suva	Yes	<ul style="list-style-type: none"> <li>Criteria are quite limited and do not extend to include evaluation of the suppliers' experience, capability and capacity, technical support, evaluation of performances in engaged contract with the Council etc.</li> <li>No scaling and points allocation to each criterion.</li> </ul>
Lami	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nausori	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nasinu	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Lautoka	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Ba	No	<ul style="list-style-type: none"> <li>Council apply the lowest tender criteria</li> </ul>
Nadi	Yes	<ul style="list-style-type: none"> <li>Council has a detailed criteria in place outlining the following: <ul style="list-style-type: none"> <li>€ Contract sum</li> <li>€ Within approved budget</li> <li>€ Performance if engaged in previous contracts with the Council</li> <li>€ Insurance</li> <li>€ Work knowledge and experience</li> <li>€ Tools plants and machinery</li> </ul> </li> <li>Scaling and points system are applied to each criteria.</li> </ul>

5.2.2.5 In addition, the overall documentation of the tender evaluation was lacking in some of the Councils visited. Report summary on the tenders and their selection were not included in the file.

5.2.2.6 The absence of tender evaluation criteria in most of the Councils may indicate that the selection of a contractor with the most appropriate capability and capacity is not a priority in the allocation of tender. Furthermore, the lack of documentation in the evaluation



process indicates lack of transparency and accountability in the tender process followed by the Councils.

### 5.2.3 Contractual agreement

5.2.3.1 A formal contract for contractual engagement should be entered into with the Contractor who has been approved to carry out the contracted works.

5.2.3.2 Contractual agreements are legally binding and are drawn up to ensure that required works are carried out in accordance to its requirements. A contract is required where the nature of the relationship with the supplier involves the need to specify certain requirements that the contractor should be aware of.

#### Format and contents of the agreement

5.2.3.3 When drafting a contract it is important to include clauses that protect the interests of the Council. These same clauses frequently also offer protection to the contractor.

5.2.3.4 Review of existing contractual agreements provided by the Councils visited found that all of the contracts included requirements covering insurance, liabilities and indemnities and payment arrangements. However a number of key items were not included as part of the contracts. Also most of the contracts did not have a proper format. Refer to the following table for details:

**Table 5.5: Contract anomalies pertaining to format and contents of Councils visited**

City/Town Council	Contract (s) examined	Audit comments
Ba	Ba Town Council and Lalesh Naidu trading as Laka Transport for the disposal of garbage	<ul style="list-style-type: none"> <li>Contract is not appropriately divided up into different sections with specific headings.</li> <li>A number of key items are not included as part of the contract. The items include: <ul style="list-style-type: none"> <li>€ Contract variations - formal procedures specifying the mechanism to be used if the contract needs to be varied.</li> <li>€ Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> <li>€ Termination and contract end dates- provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>€ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> </ul> </li> </ul>
Lami	Lami Town Council and Construction Equipment Hire Limited for the Backfill	<ul style="list-style-type: none"> <li>Contract is not appropriately divided up into different sections with specific headings.</li> <li>A number of key items are not included as part of</li> </ul>

	and leveling of Tikaram Park	<p>the contract. The items include:</p> <ul style="list-style-type: none"> <li>€ Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> <li>€ Termination and contract end dates - provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>€ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> </ul>
<b>Lautoka</b>	Lautoka City Council and Ambika Nand for grass cutting and cleaning of drains in Waiyavi Ward Area „B“	<ul style="list-style-type: none"> <li>• The General Condition of the Contract is not appropriately divided up into different sections with specific headings. The Special Condition of the Contract is divided up into sections.</li> <li>• A number of key items are not included as part of both the General and Special Condition of the contract. The items include: <ul style="list-style-type: none"> <li>€ Contract variations - formal procedures specifying the mechanism to be used if the contract needs to be varied.</li> <li>€ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> <li>€ Disputes - provisions specifying the requirements on both parties if a dispute arises during the performance of the contract.</li> </ul> </li> </ul>
<b>Nadi</b>	Nadi Town Council and M.Y.Azaad Transport for the collection and removal, cartage and disposal of garbage at LCC's rubbish dump.	<p>A number of key items are not included as part of both the General and Special Condition of the contract. The items include:</p> <ul style="list-style-type: none"> <li>€ Confidential information - clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> <li>€ Termination and contract end dates - provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>€ Penalties - penalties for contractor under-performance.</li> </ul>



<b>Nasinu</b>	Nasinu Town Council and Kinoya Old Boys Association Company Limited for the grass cutting on road side and cleaning of drain.  Nasinu Town Council and Waste Clear Fiji for the collection or garbage and removal to Naboro landfill.	The contracts are appropriately divided into sections with specific headings. Apart from the confidential information clause the contracts include all other key requirements.
<b>Nausori</b>	Nausori Town Council and Viti e Loma Youth Club for the raking and maintaining the drains, mowing the lawns and road verges.  Nausori Town Council and e-Care Environmental Consultants for the initial environmental examination.  Nausori Town Council and Tahila Group for the pre-feasibility study for the proposed relocation of the market and transport terminal	<ul style="list-style-type: none"> <li>• The three signed contracts all have different formats.</li> <li>• The General Condition of the first contract did not divide requirements into sections and with separate headings. The Specific Condition divided up requirements into sections and under separate headings.</li> <li>• The first contract did not specify confidential information and termination, penalties and contract end dates requirements.</li> <li>• The second contract did not specify confidential information, disputes and penalty requirements.</li> <li>• The third contract did not specify contract variation and penalty requirements.</li> </ul>
<b>Suva</b>	Suva City Council and Constructive Builders for the construction of compost site building	<ul style="list-style-type: none"> <li>• Contract is not appropriately divided up into different sections with specific headings.</li> <li>• A number of key items are not included as part of the contract. The items include: <ul style="list-style-type: none"> <li>€ Disputes - requirements on both parties if a dispute arises during the performance of the contract.</li> <li>€ Termination and contract end dates- provision that allows the Council to terminate a contract for convenience. The end date of the contract should also be specified.</li> <li>€ Confidential information- clauses relating to how confidential information is to be identified, dealt with and returned on completion of the contract.</li> </ul> </li> </ul>

5.2.3.5 The non-inclusion of several key requirements in the existing contracts by most of the Councils indicates that their interests may not be adequately protected in the contractual arrangements.

### Vetting of contracts by a solicitor

5.2.3.6 As contracts are legal documents it is pivotal that all contractual agreement between a Council and its contractors are vetted by a solicitor.

5.2.3.7 Our review of the contracts entered into by the Municipal Councils revealed that some of the Councils do not have their contracts with the contractors vetted by a solicitor. Refer to the table below for details.

Table 5.6: Details of contract vetting by a solicitor

Councils	Contract vetted by solicitor?
Ba	No as the contracts are on-going
Lami	Yes
Lautoka	Yes
Nadi	No – All contracts are now being vetted by the Solicitor Generals Office
Nasinu	Not vetted by solicitor despite having a legal section in the Council
Nausori	No legal section to vet contracts but Council outsourced any legal service required
Suva	Yes vetted by the city solicitor

5.2.3.8 Non vetting of contract agreements by a solicitor could expose the Councils to future lawsuits.

### Contractor engaged and re-engaged through a formal letter

5.2.3.9 Upon expiration of a contract the terms and conditions of the existing contract should be reviewed before the contract is renewed. Also the contractor's performance should be appropriately evaluated before the decision of extension of the contract is made.

5.2.3.10 It is important that a contract is drawn up and signed by both the Council and the contractor before the services are rendered or continued to be rendered.

5.2.3.11 The audit found that contractual agreements between the Lautoka City Council and two contractors had expired and the contractors were informed through a letter to continue providing the service without the contract being renewed.

In addition the audit found that Nasinu Town Council engaged a contractor without a contractual agreement signed. The contractor was only provided with the letter indicating award of contract. The following table provides further details of these engagements:

Table 5.7: Anomalies noted in the existing contracts

Council	Contractor/Services	Remarks
Lautoka City Council	Sheik Mohammed-cleaning of the Park	Contract expired on Jan 10 <sup>th</sup> 2014 and the Council vide letter dated 3 <sup>rd</sup> Jan 2014 to continue until 29 <sup>th</sup> June 2014.
	Ravindra Kumar Collection and disposal of refuse	Contract had expired on 10 <sup>th</sup> Jan 2013 and the Council advised the contractor to continue till Feb 1 <sup>st</sup> 2013 and then continue till June 2013 where a new contract was later awarded to the supplier.
Nasinu Town	and disposal of garbage Hire of Truck - Collection - A Kumar Transport	No contract was developed for this contractor. On 13 <sup>th</sup> May, 2011, the Nasinu Town Council provided a letter to acknowledge the receipt of A Kumar Transport tender and



also on the same letter agree to award him with the contract. For the past 3 years, Nasinu Town Council has paid A Kumar Transport with the following amount:

Years	Amount \$
2011	124,825
2012	106,000
2013	125,712.5
2014 (first 4 months)	113,755

The total amount paid annually to this contractor is substantial when compared to the total budget of the council e.g. in 2014, the Health Service Department have been allocated with \$978,700 but within the first 4 months, the Nasinu TC has paid almost 12% of its total annual budget allocation to the contractor.

- 5.2.3.12 The use of existing contract without proper renewals indicates that the Councils engagement of contractors for the extended period has no proper legal basis.

#### Engagement of Ravindra Singh & Company by Nausori Town Council

- 5.2.3.13 A contractual agreement was entered into by Nausori Town Council and Ravindra Singh & Company.

- 5.2.3.14 Our review of the contractual agreement relating to the engagement of the contractor noted the following:

- the agreement was not dated and not signed by either parties but the Council had paid \$178,643.22 to the contractor in 2013 alone. Refer to the following table for details of payments made.

Table 5.8: Payments made to Ravindra Singh and Company in 2013

Date	Cheque Number	Amount
13.06.13	310217	168,643.22
20.11.13	310239	10,000.00
<b>Total</b>		<b>178,643.22</b>

- The nature and scope of the service provided was not clearly outlined in the contract. The term used in the contract is "Service Provider" but the type of service was not mentioned. The accounts section stated that the contractor was involved in some construction work and the work was verified by another contractor namely "E-Designs".
- Our review conducted at the Registrar of Company's Office found that the company just commenced business on 11/03/12 and is based in Matei, Taveuni raising questions as to why a similar contractor in the Central Division was not engaged for the service.

- 5.2.3.15 The above findings raises questions of transparency in the engagement of the contractor by the Council.

## 5.3 Records Management

5.3.1 Records management is crucial to all organisations unless to account for what has happened in the past or to make decisions about the future. Records are a vital, corporate asset and are required:

- to provide evidence of actions and decisions;
- to support accountability and transparency;
- to comply with legal and regulatory obligations, including employment, contract and financial law,
- to support decision making;
- to protect the interests of staff and other stakeholders.

5.3.2 Recordkeeping involves making and maintaining complete, accurate and reliable evidence of business transactions and is primarily the responsibility of all staffs within an organisation.

### 5.3.1 Maintenance of file on contractual works

5.3.1.1 A file should be maintained for all tenders received in respect of what the tender is for and all the documented work carried out up until the tender is awarded. All the relevant supporting documents to substantiate the award of tender should be contained in the files.

5.3.1.2 Key documents that should be retained during the contract management phase and contained in the file include the following:

- Copy of the contract signed by both parties
- Risk assessments
- Contract management plan or checklists
- Records of payments
- Records of performance
- Variations to the contract
- Assistance or expert external advice received

5.3.1.3 It is important that the most up to date version of the contractual agreement incorporating any variations is appropriately maintained in the file as it provides the basis for making payments to the contractor.

5.3.1.4 A review of the files maintained at the Councils revealed the following observations:

Table 5.9: Observations on maintenance of records by Councils

Council	Audit Comments
Ba	File maintained for the contracts but all the necessary information pertaining to the tenders not in the file. Papers filed in the files are not serially numbered.
Lami	File maintained but does not have all the necessary information pertaining to the tenders. Papers filed in the file are not serially numbered.
Lautoka	Files maintained for the individual tenders with contracts but the papers in the file



	are not serially numbered.
Nadi	Files maintained by the respective sections pertaining to the tenders of the contracts were given for audit. Record maintenance was poor Papers filed in the file were not serially numbered.
Nasinu	No copies of contracts maintained by the Registry Section but maintained by respective Departments but not completed. The SA's secretary maintained all the minutes in regards to any contracts undertaken.
Nausori	The Accounts Section maintaining all the operational contract files whilst the big capital project contract files are maintained by the Project Manager. All the minutes are kept by the SA's secretary.
Suva	Files maintained for the individual tenders with contracts etc. Files are serially numbered. Documents filed in the file are not sequentially numbered.

5.3.1.5 In the absence of proper records there would be no clear trail of contractual activities undertaken and Council management would not be in a position to make timely decision regarding tender and contract engagements.

### 5.3.2 Existence of contracts inventory and register

5.3.2.1 Councils should compile a contracts inventory which lists and classifies all contracts. A classification system must be established which identifies the classifications of contracts taking into account at least the contract type or nature, strategic importance of the goods and services, contract value, contract duration and contract complexity.

5.3.2.2 The contracts inventory should be entered into a register. A register containing all contracts of the Council should be maintained centrally and a number of sub-registers maintained by various departments of the Council that collectively represents the Council's contract register centrally maintained.

5.3.2.3 Our examination at the Councils visited found no existence of contract inventory. In addition all Councils visited did not maintain a contract register detailing all contracting works/service of the Councils over the years.

5.3.2.4 In the absence of a contract inventory Councils would not be in a position to adequately and efficiently establish the number of the contracting services they have engaged in.

5.3.2.5 The maintenance of contract register facilitates the effective monitoring of contract end dates and opportunities to exercise contract extensions.

## 5.4 Payments of contractors

All payments authorised and payable to the contractor should be made strictly in accordance with the provisions of the contract.

The Council should ensure that payments are made to contractors after proper evaluation of work performed.



## 5.4.1 Controls in payments of contractors

5.4.1.1 Internal controls can generally be classified under the headings of approval, authorization, verification, reconciliations, and segregation of duties, analytical review, physical controls, management controls, processing controls, computer controls and monitoring controls.

5.4.1.2 Before payment is made, a supplier invoice should be checked and approved by the person who placed the original order to ensure it shows: the correct goods, the correct quantity and correct price (including any agreed discounts).

5.4.1.3 Our review of the payment process revealed that all the Councils have a process in place for payment; however there were lack of general internal controls in most Council. Refer to the table for further details.

Table 5.10: Details of internal controls on contractual payments

Councils	Process of Payments	Remarks on the internal control in payment process
<b>Ba</b>	Payments are made fortnightly for garbage collection services and weekly for security services.	<ul style="list-style-type: none"> <li>The Council uses MYOB for the payment process.</li> <li>The Department of Health signs on the invoice certifying the work have been done.</li> <li>No reports were provided to substantiate the verification done by the Department of Health.</li> <li>Copies of payment vouchers were not filed in the individual contract file.</li> </ul>
<b>Lami</b>	After completion of work invoices are raised and passed on to finance for payment.	<ul style="list-style-type: none"> <li>No evidence in the payment voucher to show that verification that the work was done according to the contract before payment is done.</li> </ul>
<b>Lautoka</b>	After completion of work, invoices are raised and passed on to the finance department to prepare the cheque. The cheque is then forwarded to the signatories for signing.	<ul style="list-style-type: none"> <li>Payments are made after review of supporting documents, work done according to standard requirements, certification and authorization.</li> <li>For grass cutting contract inspection measurement form are filled by the Horticulture Department to indicate that the work has been done by the contractor and the garbage contract invoice are certified by the department of Health.</li> <li>No reports to substantiate the verification done by the Council.</li> <li>Copies of payment voucher not filed in the individual contract file.</li> </ul>
<b>Nadi</b>	The invoices are submitted by the Engineering and the Health Department signed off. Payments clerk prepare the payment vouchers and checks that the amount in the invoice matches the monthly contract amount to be paid to the contractor	<ul style="list-style-type: none"> <li>No supporting document is attached when the invoices are submitted to accounts.</li> <li>The accounts clerks always check for sign offs.</li> <li>Work done according to standard requirements is checked by the department concerned.</li> <li>When the invoices are forward Finance Department it is assumed that every process is being followed because the invoice is signed off which signifies that the invoice is ready for payment. Insufficient documentation to support the verification of the work done by the contractor.</li> <li>No contract payment register to record payments made to the contractor.</li> </ul>



## CONTRACTUAL ENGAGEMENTS BY MUNICIPAL COUNCILS

	<ul style="list-style-type: none"><li>• Currently, the grass cutting and drain cleaning contract provides reports in the areas of the contract and this is also signed off by the officer responsible to check that the contractors has performed as per the contract.</li><li>• The Council has also initiated a payment register to record payments made to the contractor</li></ul>
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<b>Nasinu</b>	Invoices are first verified by the supervisors in the fields before cross checked by HODs and submitted to Finance Section for payments.	<ul style="list-style-type: none"> <li>• In some capital work construction, members of the local communities near work sites were paid by the council to supervise the work on behalf of the council.</li> <li>• Documentation from the field officials is satisfactory.</li> <li>• Internal controls in the Finance Section are good.</li> </ul>
<b>Nausori</b>	Invoices are first verified by the supervisors in the fields before cross checked by HODs and submitted to Finance Section for payments.	<ul style="list-style-type: none"> <li>• The Council does not have the capacity to check or verify the capital projects works under ITP, thus the reliance on the project manager to verify on behalf of the council</li> <li>• The Council paid the Project Manager without any independent verification on the work undertaken by the Project Manager</li> </ul>
<b>Suva</b>	<p>Any claims by contractors are checked before any payment is made. The percentage of work or schedule of works as stipulated in the contract must be completed for any payments are to be made.</p> <p>For grass cutting and drainage cleaning contracts, payments are made after reporting and validating officers check the areas. Then this is certified by the certifying officer. After all this then payment is authorized.</p>	<ul style="list-style-type: none"> <li>• Ward inspectors check the respective works in the ward daily. Reports are prepared and sent to the Health Inspectors.</li> <li>• Internal controls in the Finance Section are functioning well as supporting documents are checked before payments are authorized.</li> </ul>

5.4.1.4 The payment process practiced by the various Councils is guided by the Manual of Accounts. Some of the Councils visited have also developed their policies including accounting manuals and procedures.

5.4.1.5 The non-compliance to the internal controls in place within the various Councils could encourage fraudulent practises amongst the Council officials.

## 5.4.2 Deposit payments made by Suva City Council to Construction Builders

5.4.2.1 The Suva City Council entered into a contract with Construction Builders for the construction of Compost Site Building on the 31<sup>st</sup> of May 2013. The funding for the construction works was provided by the Japanese Embassy.

5.4.2.2 The contractual agreement between the Council and the contractor indicated provisions for progressive payments as follows:



*"That the SCC shall pay consideration to the Contractor for its services in the total sum of Twenty Four Thousand dollars (\$24,000) inclusive of Value Added Tax. The consideration shall be paid in progressive stages payments as set out in the Schedule of payments and upon the completion of the contract having being satisfactorily performed of completion of the specified works and upon producing a Certificate of Practical Completion to that effect issued by the Director Engineering Services or his authorised representative."*<sup>1</sup>

5.4.2.3 The Schedule of payments included as Annexure C of the contract outlined the breakdown of the amount agreed between the two parties as follows:

Table 5.11: Contractual sum agreed

Description	Amount (\$)
Deposit	7,920.00
<ul style="list-style-type: none"> <li>• Site clearance</li> <li>• site layout and profiling</li> <li>• footings and pad layout</li> <li>• pole arrangement and filing concrete</li> <li>• floor layout for shed</li> <li>• floor layout for office.</li> </ul>	5,500.00
<ul style="list-style-type: none"> <li>• Office layout</li> <li>• Shed structure layout</li> <li>• Shed roofing</li> <li>• Shed finishing</li> <li>• Office side wall fixing</li> </ul>	7,200.00
<ul style="list-style-type: none"> <li>• Office interior finishing</li> <li>• Sink, WC, table, door fixing, window fixing</li> <li>• Office painting</li> </ul>	2,360.00
Finishing	1,020.00
<b>TOTAL</b>	<b>\$24,000.00</b>

5.4.2.4 Audit found that the Council made the deposit payment of \$7,920 to the contractor as stipulated in the contract. However, the contractor did not complete the work and the Council had to complete the project from where the contractor had left of.

Our discussion with the Council management gathered that the reason the deposit payment was included in the agreement to be made were due to the following reasons:

- that it was required by contractors as a protection for non-payment; and
- suppliers may not have enough capital to purchase the item.

5.4.2.5 The Council's monetary calculation of the work conducted by the Contractor totaled \$5,278.59 indicating that the Council had been overcharged by \$2,091.41. Audit gathered that the amount was not re-imbursed by the Contractor to the Council. Our review of the contractual agreement found that such situation was not addressed in the contract. The Council however did not make any further payments to the contractor as stipulated in the contract.

<sup>1</sup> Clause 2

5.4.2.6 The above deficiency indicates that the Council did not conduct a thorough evaluation of the Contractor's capability in terms of both financial standing and technical knowhow to effectively carry out the construction works.

## **RECOMMENDATIONS**

### **All Councils**

All Councils should:

- ensure that staffs involved in contractual works are adequately trained with the appropriate skills and basic knowledge of contractual engagements.
- create contracts inventory to identify control management at the various levels of the contracts undertaken.
- ensure independence and transparency in the allocation of tender. All Councils should ensure that the authorizing party making the decision of tender allocation does not entail all officers included as the members of the tender committee. The authorizing party should include:
  - € the Special Administrator;
  - € the head of the section whose services is required to be contracted;
  - € the head of the Finance section and
  - € two representatives from the ratepayers.
- ensure that proper documentation is maintained to adequately reflect tender evaluations.
- ensure that key items specified in this report are integrated as part of their existing contractual agreement.
- ensure that proper records are maintained to evidence activities relating to contractual works. Files should be appropriately numbered for ease of reference.
- ensure that a contract inventory is maintained which should be entered into a register. The contracts must be classified in terms of contract type or nature, strategic importance, contract value, contract duration and contract complexity. The register should be updated on a regular basis as and when contracts expire or new contracts are entered into by the Council.
- ensure that stringent internal controls are in place on the payment of contractors. Payments made to contractors should be properly supported with relevant documentations. Proper documentation should be maintained to evidence payments made.

### **Nausori Town Council**

The Nausori Town Council should:

- ensure that an Engineer and Health Head are recruited to facilitate proper identification of projects to be contracted out.
- develop tender evaluation criteria to use for evaluating tenders received. A scaling system should be used to apply the criteria when evaluating tenders.
- ensure a standard format is used for its contractual agreement. The contracts should be appropriately divided into sections with proper headings.
- ensure that contractual agreements are vetted by a solicitor.
- ensure that all contractual agreement drawn up for services to be rendered to the Council are signed and properly dated. In addition the contract should specifically state the services agreed to be provided by the contractor.
- ensure that all contractual engagements are conducted in a proper and transparent manner.
- ensure that contractors engaged to conduct services are based within the Central Division to avoid charging of additional costs to the Council.



**Lami Town Council**

The Lami Town Council should:

- develop tender evaluation criteria to use for evaluating tenders received. A scaling system should be used to apply the criteria when evaluating tenders.
- ensure that its contractual agreements are appropriately divided into sections with proper headings.

**Nasinu Town Council**

The Nasinu Town Council should:

- develop tender evaluation criteria to use for evaluating tenders received. A scaling system should be used to apply the criteria when evaluating tenders.
- ensure that contract agreements are vetted by its solicitor.
- ensure that a contract is drawn up before engaging a contractor and making payments for the services required.

**Lautoka City Council**

The Lautoka City Council should:

- develop tender evaluation criteria to use for evaluating tenders received. A scaling system should be used to apply the criteria when evaluating tenders.
- ensure that the General Conditions of its contractual agreements are appropriately divided into sections with proper headings.
- ensure that existing contracts approaching expiry term are first reviewed before the contract is renewed. The performance of the contractor should also be reviewed prior to renewing the contract.

**Ba Town Council**

The Ba Town Council should:

- develop tender evaluation criteria to use for evaluating tenders received. A scaling system should be used to apply the criteria when evaluating tenders.
- ensure that its contractual agreements are appropriately divided into sections with proper headings.
- ensure that contractual agreements are vetted by a solicitor.

**Suva City Council**

The Suva City Council should:

- improve its tender evaluation criteria and include other factors such as the experience of the contractor, contractor's capability and capacity and past performances in contracts with the Councils. A scaling system should be used to apply the criteria when evaluating tenders. *[The issue pertaining to engagement of Constructive Builders as raised in this report is directly related to the weakness in the existing tender evaluation criteria]*
- ensure that its contractual agreements are appropriately divided into sections with proper headings.
- improve its contractual agreement to address issues pertaining to payment of deposit as in the case of Constructive Builders.

**Nadi Town Council**

The Nadi Town Council should:

- ensure that contractual agreements are vetted by a solicitor.

## **Management Comments**

### **Ba Town Council comments**

*When Council will make new contract with the garbage contractor the specific details as advised by the Auditor will be included. Ba Town Council will engage Solicitor on vetting of contracts in future. Council will follow as per auditor's comments. However, Council has a voucher file where all the vouchers are kept. Council will keep separate file for all contract payments and monitoring comments.*

*Ba Town Councils will develop tender evaluation criteria for evaluation of tenders received. Ba Town Council will follow the advice of Auditor in the developing tender evaluation criteria for tender and the contractual engagement will be properly divided when new contract are made which has to be vetted by Solicitor.*

*Ba Town Council has a complaint register whereby all the complaints are recorded. However, Council will ensure that it is maintained and monitored on regular basis.*

### **Lautoka City Council comments**

***Details of tender deliberations** - The Tender Opening Committee responsible for opening the tenders comprising of the Special Administrator, Chief Executive Officer, Manager Finance Administration and Human Resource Services and the Secretary opens the tender box after closing of tender. The results of the tender are recorded in the minutes of the Tender Opening Committee and handed to the respective Head of Departments for preparing a detailed report on the tenders and report is submitted to the respective development committee for evaluation and assessment. The development committee then makes its recommendation to the full council meeting for approval. Independence is maintained at all levels of the tender process.*

***Evaluation criteria** - The tenders at the Council are normally evaluated against the following general criteria.*

- *Technical/Quality - overall level of compliance with the technical specifications.*
- *Price – consideration of costs and obtaining best value-for-money.*
- *Qualification of suppliers - business capability and capacity, including viability, staff resources, commercial management, commercial terms, risk management, and company quality systems.*
- *Relevant experience – the proven ability to supply or deliver the goods, services or works.*
- *Support service/warranty – providing warranty and long-term service support over the duration of the contract, life of the product, etc.*

*Weighting given to cost and quality is dependent on the risk and value of the contract to be awarded. The Council does not necessarily consider the lowest bidder but evaluates and selects a contractor based on the above criteria.*

***Contract anomalies** - The Council will ensure that it incorporates the recommended key items in the newly updated contracts.*

***Anomalies in existing contracts** - The contracts had expired and took longer than expected to finalise tender and since it is an essential service the council has to request the current contractor to continue performing the work under the same terms and conditions existing whilst it finalise its tender process.*

***Maintenance of file on contractual works** - Henceforth, the Council will ensure that the documents in the files are serially numbered.*

***Existence of contracts inventory and register** - The Council maintains and updates the contract register which contains all the details of contractors on a timely basis.*



**Controls in payments of contractors** - The payment vouchers are prepared and filed in chronological order in the payment voucher files which maintained by the Finance department, for this requirement the council will make copies of payment voucher and file it in individual contract files.

#### Nadi Town Council comments

**Activities of contractual engagements** - Currently, it is true that the different capital works are identified by the different departments but in Nadi Town Council the Engineering department is always consulted before the council decides to go ahead with the project. This is further discussed at the monthly committee meeting and from there decisions are also made on whether we will contract out the project or have the work done in house. Certain areas are taken into account like the urgency of the project, the cost and also the type of expertise task that is needed to complete the project. (When a Special Administrator exists).

This process slightly changes when a council is run by nominated members from the different parties. It is usually the different elected parties who suggest the projects with the consultation of the Engineers and the Chief Executive Officer.

I do not agree with the report that the absence of technical expertise may result in the Council identifying the wrong projects to be contracted out because at Nadi Town Council, the respective department with the Engineering department itemizes the costing with the materials and the Finance department checks the calculations. If the Engineering department and the respective department gives the wrong details to the Finance department there will always be wrong computations done because the Finance department only checks the calculations and the technical expertise can always under quote and over quote.

I agree that there needs to be two separate parties involved in the evaluation and also the authorizing party. It is good to note that this was identified as per your report and we at Nadi Town Council will work towards implementing the audit finding so that we can better manage the tenders and contracts. This will be highlighted in the Council meeting so we as a Council can adhere to certain findings.

On the vetting of the agreements by a solicitor, Council is currently sending all contracts to the office of the Solicitor General and this practice only started in 2014.

#### Nasinu Town Council comments

While we agree and will implement seven of the eight recommendations made, we feel that for bullet point three, it would be wise to select one from a government agency and one from a statutory body instead of two representatives from the ratepayers as we have seven Wards in our council.

We agree with all the recommendations made and we will implement them.

#### Nausori Town Council comments with respect to all Councils

1. Nausori Town Council has been drawing contracts through input from respective technical areas having appropriate experience and basic knowledge to provide relevant expertise. We have on board two staff with Diploma in Civil Engineering (structural and civil) with experience who would provide relevant expertise in technical area to draft contracts. For some contract we use standard agreements and where specifically new contracts are to be designed we would get a solicitor to design a contract.
2. Contract performance and payment recommendation would be by technical officers (assigned responsibility) and relevant reports on the same would be tabled at council sector committee meeting by relevant supervising officer.
3. For Nausori town council performance and appraisal of contracts reports would be maintained by relevant technical section such as financial matters relevant to the contracts with finance department, supervision and performance with technical department and administration matters with the administration department.
4. Tender opening, analysis and recommendation would be through special tender committee established. Tenders committee recommendation would be then evaluated and recommended by Chief



*Executive Officer to full council. Currently under the review of Local Government period all tender committee recommendations would directly be placed to full council. Please note that Local Government Act – Cap 125 Section 27 (2) restricts ordinary citizens and rate payers to sit in committees to decide on financial matters. Finance committee members are strictly to be appointed Council members.*

5. *For all contracts, tender and specifications form part of the contract which would very much established key result and required output areas. The tender and specification documents would describe the work, resources required, supervision methodology and person supervising.*
6. *All contractual agreements entered into are to national standard and quality to be competent under law. Usually council would standard agreement to avoid reduce solicitors expenditure.*
7. *All contract entered into by Nausori Town Council are properly signed by the service provider and council. In reference to Ravindra Singh and Nausori town council, the agreement was signed by both parties and before this an offer letter was sent to Ravindra which was accepted.*

*The contract agreement was based on:*

- *Tender design and specification drawn by Engineering Designs*
- *Expression of interest called through media advertisement*
- *Interested bidders evaluated and short listed by engineered designs based on criteria established*
  - *Short listed bidders given tenders, specifications and designs*
  - *Contractors placing tenders before closing date at Tender Box located at Council main office*
  - *Tender box opened by consultants and council, evaluated and awarded*

#### **Nausori Town Council comments**

1. *Council has employed from 2010 two (2) Senior Health/Building Inspectors and two Diploma in Civil Engineering (structure and civil) staffs with experience to guide on relevant key technical areas including contract awards and supervision.*
2. *For the Transport Project Council has outsourced technical services to a number of personals to assist council in various areas as follows:*
  - a. *Project management*
  - b. *Project architecture*
  - c. *Project engineering*
  - d. *Project quality surveying*
  - e. *Project services engineering*
  - f. *Project financial consultants*
3. *The consultants have designed and recommended all construction works to Council which had been tabled in twelve technical committee meetings having Council and relevant government agencies as members. Consultants have been engaged using various international professional standard agreements designed for eleven areas.*
4. *For all relevant works, council has established a benchmark for entry. Assessments would be carried out before work commences and qualified bidders will be evaluated based on tenders received and available internal pre assessment.*
5. *Council shall consistently review its Procurement Policy and work closely with the department of Local Government to review the existing Manual of Accounts. In 2012, a new procurement policy has been established with an improve procurements in totality.*
6. *Tender process, award and performance process have been consistently reviewed to ensure that contractual engagements are conducted in a proper and transparent manner. In 2012, council prepared and adapted to a Procurement Policy document.*



**Suva City Council comments**

*Agreed that the Policy governing the management of Contracts (existing 1992 Manual of Accounts by MLG) is an out-dated document and needs to be revised urgently.*

*Evaluation process - Currently the evaluation is done in-house by Senior Managers in consultation with respective Dept HOD's thence recommendation submitted to the Council. A weighting & scaling system is in place for HSD which will be replicated across in other Depts. To improve upon in terms of transparency, as a way forward we will possibly rope in external party/agency like MLG staff; Solicitor General's Office or a senior staff of sister municipality. Our tender awarding policy is of acceptable level if not the best as captured elsewhere in your report. As a premier municipality we do manage many contracts across.*

***Contractual Agreements to be in sub-headings – Changes will be accommodated in new Contracts***

***Issues relating to Constructive Builder - The one highlighted involving Constructive Builders needs further elaboration. The Contract Document was drawn exactly in line with other similar Contracts involving small building works and of course vetted by our City Solicitor.***

*In this instance Embassy of Japan wished to sponsor SCC Compost Project by assisting in acquiring a Shredder and providing a Compost Shed. They had allocated a budget of \$90,000 for this. They asked Council to facilitate quotations from suppliers preferably with small Contractors already engaged with Council. The Shredder was not an issue since it was already decided by sponsors to purchase from Niranjans who had earlier supplied similar machines to Lautoka City Council through JICA. As for the Compost Shed we as recipient were obliged to facilitate this request and we did so by obtaining quotations based on our plans, from a handful of reputable Contractors. Constructive Builder at that time was doing small works for Council and on that strength was approached and did oblige. Their quotation of \$24,000 VIP being the lowest was accepted by the Embassy since they had \$ 24,000 to work with realizing that out of \$89,000, \$65,000 was paid to Niranjans for Shredder.*

*The Embassy did all the documentation work and forwarded preliminary Contract documents to Council to enter into agreement with the two chosen suppliers namely Niranjans & Constructive Builder. As a recipient we did not have much choice but cooperate with the Embassy in good faith. However we felt to strengthen our position and entered into a formal Agreement with the Builder. The upfront deposit formed part of the agreement endorsed by the Embassy which was a normal practice with all their chosen Contractors in all Embassy sponsored Projects.*

*Essentially we did not have any obligatory input to decide the Contractors but was solely a decision by the Sponsor. The response by the Second Secretary Mr Kuroki of Embassy of Japan via email dated 24<sup>th</sup> July, 2013 is self-explanatory. They followed their procurement procedures and because of the budgetary limitation chose the lowest bidder in this case Constructive builder. Since the Builder abandoned the project with approx. 30% works completed, Council had to move in to complete the project on timely basis (project delivery date of February, 2014 was around the corner) in maintaining our healthy relationship with the Embassy and more importantly to see this new initiative/model of sustainable municipal composting through for the City. We were confident that the benefits derived from the project will far outweigh the monetary input the Council was forced to take on.*

***Transparency in Tender evaluation process***

*Agreed in principal. A standard policy guideline to be implemented across all municipalities is most desirable. In absence of one we comply with whatever at our disposal the "Manual of accounts for Municipal Councils" by MLG. We recommend that MLG come with a new standard manual for all municipalities. Agreed that the Manual has to be revised and not only that but as expressed elsewhere standardized to be applicable to all municipalities across. The recommendation from your Office has to be put to MLG.*

**Further OAG Comments****Suva City Council**

Following further consultation, the Council agreed that advance payment will be avoided as much as possible and in the future contracts would contain provisions where the Council could take the contractor to court for works not completed.

**Nausori Town Council**

The following matters were clarified following further consultations with the Council's Chief Executive Officer on 31/10/14.

With respect to recommendations directed at all Councils, the Council is currently developing an electronic contract register. The Council agrees with the audit recommendation to maintain independence between the Tender Committee that evaluates tender applications and makes recommendations, and the Finance Committee that endorses tenders recommended by the Tender Committee. Tender Committee members include all section heads/technical officers and the Finance Manager, whilst the Finance Committee comprises of the Special Administrator, the Chief Executive Officer and the Finance Manager.

However the Council maintains that representation of ratepayers in the Finance Committee is unacceptable as this contradicts requirements of the Local Government Act. In agreeing with the audit recommendation that documentation is important, the Council has proposed that it will develop an index system to boost their current documentation system. Furthermore the Council agrees with the audit recommendation to maintain a contract inventory and will be developing an electronic database which will consider incorporation of specific fields identified by the auditors.

The Council has concurred with most of the recommendations proffered. It proposes to develop a more detailed and comprehensive tender awarding process. The Council intends to have a standardized format for all contractual agreements but which will explicitly define the nature and scope of works to be conducted. The council proposes to have contract agreements for major projects vetted by the Office of the Solicitor General whilst contract agreements for minor projects can be dealt with by the Council's Prosecutor.



## 6.0 MANAGING PERFORMANCE

## CONTRACTORS

*This section of the report looks into the management of contractors' performance by the Councils. In particular the section seeks to determine whether the Councils have effective system to monitor and evaluate the performance of the contractors to ensure that value for money has been obtained and the intended outputs have been attained from such contractual arrangements. The section also covers management of complaints by the Councils.*

- 6.0.1 Performance management should be undertaken throughout the contractual stages. Performance management involves:
- performance monitoring - collecting data on performance;
  - performance assessment - deciding whether performance meets the organisation's needs; and
  - taking appropriate action - understanding and extending features of good performance, correcting areas of under-performance or amending contract requirements to meet changing needs.
- 6.0.2 Along with performance indicators and standards, arrangements for monitoring and assessments should be set out and agreed in the contractual agreement along with action that should be taken in instances of non-performance. Clear links should be established in the contractual agreement between payments for performance and the effect of non-compliance or under-performance on these payments and the intent to invoke penalties contained in the agreement if necessary.
- 6.0.3 Systematic monitoring underpins performance assessment and they do not occur in isolation from one another. In practice, performances are assessed and feedback and reports provided throughout the monitoring process.

### 6.1 Monitoring system

- 6.1.1 Monitoring provides a means for ensuring that implementation goes according to plan. As such Councils should have a monitoring system in place to effectively monitor the work of contractors.
- 6.1.2 Effective monitoring should be reinforced by policies and procedures that present a framework for Councils to ensure that financial and operational performance of the contractual work is measured against established targets.
- 6.1.3 Different approaches to monitoring may be used at different phases in contract delivery or for particular aspects of performance. Whatever monitoring arrangements are determined they should be cost effective to implement and manage and the necessary skills should be available.



- 6.1.4 Audit gathered that the different Councils visited have different monitoring systems in place. The general observation on the monitoring of contractual works found that most Council have some system in place to monitor contractual works. However, the notable weakness in the Councils is the lack of a monitoring policy governing monitoring works of all their capital projects including projects arising out of contractual engagements.
- 6.1.5 Discussions with the officers at the respective Councils revealed that monitoring of contractors work were conducted on a regular basis. However, there were specific issues noted in relation to certain Councils which are detailed below.

**Table 6.1: Monitoring of contractors' work**

Council	Frequency of monitoring	Audit comments
Ba	Daily	No documented evidence of monitoring noted.
Lami	Daily	No documented evidence of monitoring noted.
Lautoka	Daily	No documented evidence of monitoring noted.
Nadi	Daily	No documented evidence of monitoring noted.
Nasinu	Daily	Field officers have log books which are cross checked with the invoice sent by invoices before submitted for payments.
Nausori	Daily supervision on operational contracts	Monitoring reports maintained by respective Department.
Suva	Daily	There are monitoring reports which is prepared when payments are made progressively. Records maintained by the Ward Managers on daily inspection.

- 6.1.6 The accepted practice utilized over the years requires that the respective sections document monitoring of contracted works under their department. However, as can be gathered from the table lack of proper documentation of monitoring works is still in existence in most of the Councils visited.
- 6.1.7 Lack of documentation of monitoring works may result in the Councils management not being able to make prudent and timely decisions on matters pertaining to contracted engagements.

## 6.2 Monitoring of contracted works by an external party

- 6.2.1 On the 20<sup>th</sup> of December, 2012, the Nausori Town Council entered into an agreement with a Consultancy Company namely G.A. Consultants Ltd, which acts as Project Manager on behalf of the Council. The Project Manager was engaged to monitor few of the Integrated Transport Project (ITP) contracts for the Council with the objective of achieving the Councils scope, time, costs and other specified objectives.
- 6.2.2 Annexure C to the contract indicates the Council have engaged the services of the Project Manager at the agreed sum of \$110,000 (VEP).
- 6.2.3 The Project Manager monitored the work of five contractors. The following table summarises the five contractors and the amount that have been paid by the Council to the various contractors for their contractual services as at the end of April 2014:



**Table 6.2: Contractors monitored by the Project Manager with amount paid to them by the Council**

Contractors	Service provided	Amount Paid (\$)
Ashok Balgovind	Architect	201,362.47
E-Designs	Geo Tech & structure	46,158.25
Erwin Alsop	Service Engineer	57,509.00
William & Associates Ltd	Quantity Surveyor	128,546.11
Ragwan	Construction	Not provided
<b>Total</b>		<b>\$433,575.83</b>

- 6.2.4 Audit noted that even though a contract was signed between Nausori Town Council and the company the Council did not regard the Project Manager as a contractor but as part of the Nausori Town Council organisation employee.
- 6.2.5 The Council paid a total of \$81, 852.93 to the Project Manager as at the end of April 2014. The following table provide details of the amount paid.

**Table 6.3: Breakdown of amount paid to the project manager as at 30<sup>th</sup> April 2014**

Date	Cheque No.	Amount (\$)
13.06.13	310215	7,441.18
31.07.13	310221	22,323.54
08.10.13	310233	14,882.36
13.11.13	310238	7,441.18
04.12.13	310240	7,411.18
03.03.14	310246	14,882.36
26.04.14	310250	7,441.13
<b>Total</b>		<b>81,852.93</b>

- 6.2.6 Considering the magnitude of the amount paid to the Project Manager the audit found the following anomalies in the engagement.
- the provisions in the Contract/Agreement have no requirements to compel the Council to monitor the work of Project Manager. Thus the Council did not verify the monitoring works conducted by the project manager.
  - the contract did not include a requirement for reporting of results of monitoring by the project manager.
  - payments were made to the project manager on the strength of the invoice without documentary evidence of monitoring works conducted on each of the five contractors.
- 6.2.7 There is a risk that the Council may be paying more than the actual monitoring work conducted by the project manager.

## 6.3 Evaluation of contract performance

- 6.3.1 An evaluation should be undertaken by the Councils at the end of the term of a contract. Contract evaluation should encompass the overall performance of the contractor and the Council. Such evaluation should be conducted so that any problems that have occurred with aspects of the contractual arrangement are identified and where appropriate, improvements made in future contractual arrangements.



- 6.3.2 To get the best out of the evaluation Councils should review all aspects of contract performance and its management, provide feedback to the contractor and identify lessons learnt. The evaluation should consider both the effectiveness and efficiency of the contractual arrangement.
- 6.3.3 A contract performance report should be prepared to evidence the evaluation results. In addition to specific requirements outlined in the contractual agreement the following table outline key activity where the evaluations should be concentrated.

Table 6.4: Key activities for performance evaluation

Activity	Details
Administration of contractual agreement	<ul style="list-style-type: none"> <li>Timely responses to correspondence between the parties</li> <li>Timeliness of any required approvals</li> </ul>
Contract documents	<ul style="list-style-type: none"> <li>Clarity and adequacy of scope</li> </ul>
Delivery of services	<ul style="list-style-type: none"> <li>Completion time</li> <li>Quality of work</li> </ul>
Progress payments	<ul style="list-style-type: none"> <li>Fairness and reasonableness of claims</li> <li>Timeliness of payments</li> </ul>
Claims management	<ul style="list-style-type: none"> <li>Processing of claims in a timely manner and in accordance with the contract.</li> <li>Assessment of claims was fair and reasonable.</li> </ul>

- 6.3.4 Our examination found that none of the Councils visited conducted a performance evaluation of contractors upon expiration of the terms of their contracts on services rendered to the Council. In addition audit found no evidence that any of the Councils prepared a contract performance report.
- 6.3.5 Conduct of evaluation and preparation of contract performance report would assist the Council in identifying areas for improvement for future contractual engagements.

## 6.4 Monitoring, reporting and evaluation of performance requirements included in the contract agreement

- 6.4.1 Contractual agreement should generally contain provisions for monitoring progress and evaluation of the performance of a contractor. In this regard contracts should include provisions that cover the person responsible for undertaking performance monitoring including the responsibility for collecting and analysing data, the frequency of monitoring, the reporting arrangements; and any processes to review the performance of the contractor.
- 6.4.2 Our review of contracts gathered from various Councils visited gathered the following observations in respect to the integration of monitoring requirements.

Table 6.5: Details of integration of monitoring requirements in contracts

Council	Audit observation
Nadi Town Council	Monitoring requirements, reporting arrangements and review process to review the performance of the contractor were not included in the contract.
Ba Town Council	Monitoring requirements, reporting arrangements and review process to



	<p>review the performance of the contractor were not included in the contract.</p>
<b>Lami Town Council</b>	<p>Clause 32 of a contract reviewed requires that routine inspections be carried out randomly by the Building Inspector and Work Supervisor of the Council with the representative of the contractor and a report to be submitted weekly to the Council.</p> <p>Contract however did not incorporate requirements to conduct overall evaluation of the contractor's performance.</p>
<b>Nasinu Town Council</b>	<p>Clause 9 of a contract drawn by the Council incorporates performance and monitoring. The requirement includes identification of officer responsible for monitoring and reporting of contractor's performance. In addition the requirement provides that any deficiency identified should be brought to the attention of the Contractor and which should be rectified within 24 hours to the satisfaction of the Council but at the expense of the Contractor.</p> <p>The clause however did not incorporate requirements on the frequency of reporting and processes to review the performance of the contractor.</p>
<b>Lautoka City Council</b>	<p>Clause 4.3 of the Special Conditions of Contract requires that the works shall be inspected by the Director Engineering Services or his representative and any shortcomings to be rectified within 24 hours. Inspection work required in the contract to be conducted daily for the duration of the contract.</p> <p>However, there is no specific requirement on the reporting of contractual works by the responsible officer. Also neither the general nor the special condition contract outlines requirements on the process governing evaluation of the contractor's performance.</p>
<b>Nausori Town Council</b>	<p>The special conditions under one of the three contracts examined included requirements on inspection of works to be conducted by the Field Supervisor of the Council or nominee and any short comings to be rectified within 24 hours or no later than 7 days. The frequency of inspection is also indicated under the condition.</p> <p>There is however no specification on the reporting arrangement and process to evaluate the Contractor's performance.</p> <p>The remaining two contracts did not provide any requirements on the monitoring requirements, reporting arrangements and review process of contractual arrangement to review the performance of the contractor.</p>
<b>Suva City Council</b>	<p>Clause 26 provide requirement for routine inspections to be carried out by the Engineering Department of the Council.</p> <p>There is however no specification on the frequency of inspection, the reporting arrangement and process to evaluate the Contractor's performance.</p>

6.4.3 It can be noted from the above table that not all Councils integrated monitoring, reporting arrangements and performance evaluation of the contractor as part of the contractual agreement.



- 6.4.4 The anomaly clearly indicates that the various Councils do not place emphasis on monitoring and evaluating performances of contractors once they are engaged.

## 6.5 Managing complaints on contractors work

- 6.5.1 Complaints are an important way for the management for the Council to be accountable to the ratepayers as well as providing valuable prompts to review organisational performance and the conduct of people that work within and for it. As such Councils should maintain a register to record complaints from ratepayers for inadequate services conducted by contractors.
- 6.5.2 An effective complaint handling system provides three key benefits to an organisation which includes the following:
- resolves issues raised by a person who is dissatisfied in a timely and cost-effective way;
  - provides information that can lead to improvements in service delivery; and
  - improve the reputation of an organisation and strengthen public confidence in an organization's administrative processes.
- 6.5.3 Complaint handling should have sound processes that embody the five fundamentals principles of fairness, accessibility, responsiveness, efficiency and integration as its basis. The aim is to ensure that complaints are dealt with efficiency and effectively and the clients have confidence in the Council's complaint system.
- 6.5.4 Our review gathered that except for Suva City Council all other Councils visited maintain a complaint register where all complaints raised concerning their operations are entered into. Such information entered into the register also includes complaints relating to contractors engaged by the Councils.

In addition audit gathered the following findings in the management of complaints within the Councils visited.

**Table 6.6: Monitoring of contractors' work**

Council	Audit Comments
Ba	<ul style="list-style-type: none"> <li>• The register was not appropriately maintained and updated on a regular basis.</li> </ul>
Lautoka	<ul style="list-style-type: none"> <li>• The Council carries out inspections, gives out notices and even take legal action where necessary. When complaint is received by the ratepayer, an inspection is carried out and a notice sent. If there is still non-compliance, a second notice may be sent or legal action taken</li> <li>• Complaint register maintained however register was not updated in a timely manner.</li> </ul>
Nadi	<ul style="list-style-type: none"> <li>• The Council informs the complaint about the processes and the cycle and the contractor is informed to address the complaint and if it is not done by the contractor the task is carried out by the contractor and the cost is deducted from the sum agreed to be paid to the contractor.</li> <li>• The register was not appropriately maintained and updated on a regular basis.</li> </ul>
Nasinu	<ul style="list-style-type: none"> <li>• Scrutiny of the complaints register revealed that the Council has been attending to the complaints received satisfactorily.</li> <li>• Dates of complaints received and attended to with the details of work provided by the Council are provided in the complaints register.</li> </ul>



<b>Nausori</b>	<ul style="list-style-type: none"> <li>The Council maintains both a manual and electronic copy of complaints register. Audit review of both registers found that both registers were not updated on a regular basis.</li> </ul>
<b>Suva</b>	<ul style="list-style-type: none"> <li>When complaint is received by the ratepayers an inspection is carried out and a notice sent. If there is still non-compliance, a second notice may be sent or legal action taken.</li> </ul>
<b>Lami</b>	<ul style="list-style-type: none"> <li>Council has a register in place and is updated in a timely manner.</li> </ul>

6.5.5 It can be noted from the above table that some Councils do not update the status of the complaints raised.

6.5.6 The non-update of the complaints register disallows the Council from establishing the effectiveness and efficiency in addressing complaints.

## **RECOMMENDATIONS**

### **All Councils**

All Councils should:

- ensure that a monitoring policy is developed which should include monitoring of contractors' work. The policy should cover amongst other things requirements of documentation of monitoring activities. Such policy once developed and endorsed by management should be strictly complied with by the Councils.
- ensure that an overall evaluation of a contractual arrangement is undertaken following expiration of the contract. A contract performance report should be prepared to detail the results of the evaluation.

### **Ba Town Council**

The Ba Town Council should:

- ensure that monitoring works conducted are documented in the form of a report. The report should be included in the relevant contract's file for reference.
- ensure that contractual agreements with contractors should integrate requirements on monitoring, reporting arrangements and review of contractor's performance. The frequency of monitoring and reporting should be specifically outlined in the agreement.
- ensure the proper documentation of complaints in the complaints register. The register should be updated on a regular basis such that the Council is aware of the status of complaints at a particular point in time.

### **Lami Town Council**

The Lami Town Council should:

- ensure that monitoring works conducted are documented in the form of a report. The report should be included in the relevant contract's file for reference.
- improve its contract with contractors to incorporate requirements on the evaluation of contractor's performance following completion of the contract.

### **Lautoka City Council**

The Lautoka City Council should ensure that:

- monitoring works conducted are documented in the form of a report. The report should be included in the relevant contract's file for reference.
- its contract with contractors be improved to incorporate requirement of the reporting of the results of inspections by the Director Engineering Services and the evaluation of contractor's performance following completion of the contract.
- proper documentation of complaints in the complaints register. The register should be updated on a regular basis such that the Council is aware of the status of complaints at a particular point in time.

#### **Nadi Town Council**

The Nadi Town Council should ensure that:

- monitoring works conducted are documented in the form of a report. The report should be included in the relevant contract's file for reference.
- for future engagements of consultants to monitor contractual engagements the contractual agreement should incorporate requirements of monitoring works by the project manager to be checked by an officer of the Council and the provision of reports by the project manager evidencing monitoring activities. In addition, the Council should ensure that any claims made by the project manager should be supported by a progress report of monitoring works in addition to the invoice and that such reports should be verified before payment is made.
- contractual agreements with contractors should integrate requirements on monitoring, reporting arrangements and review of contractor's performance. The frequency of monitoring and reporting should be specifically outlined in the agreement.
- proper documentation of complaints in the complaints register. The register should be updated on a regular basis such that the Council is aware of the status of complaints at a particular point in time.

#### **Nasinu Town Council**

The Nasinu Town Council should improve the clause of its existing contract on monitoring and performance to include the frequency of reporting by the Council Liaison Officer and also the requirement to conduct evaluation of the contractor's performance upon expiration of the contract.

#### **Suva City Council**

The Suva City Council should:

- improve its contracts with contractors to include requirements on the frequency of inspection, the reporting arrangement and process to evaluate the contractor's performance.
- maintain a complaints register to record all complaints received in the provision of its services including services provided by contractors.

#### **Nausori Town Council**

The Nausori Town Council should ensure that:

- all its contractual agreements with contractors should integrate requirements on monitoring, reporting arrangements and review of contractor's performance. The frequency of monitoring and reporting should be specifically outlined in the agreement.
- the complaints register (both the manual and electronic record) are updated on a regular basis such that the Council is aware of the status of complaints at a particular point in time.



## **Management Comments**

### **Ba Town Council comments**

Council noted the comments by auditors regarding the monitoring works of contractors. Council has been monitoring the performance before the payments are made but proper documentations on performance were not kept. In future, performance report will be recorded and kept by the Health Department.

Council has a Complaint register whereby all verbal and written complaints received are recorded in the complaints register and actions are taken. The register is updated on regular basis.

### **Lautoka City Council comments**

**Monitoring system** - Currently the contracts are monitored by the respective departments they fall under and their performance is part of the department's report tabled in the monthly council meeting. For non-performance and breach of any contract conditions the council decides on the appropriate corrective action to take and if it decides to terminate the contract then it will also determine how the work will be carried out in the interim while it tenders the contracts. These are filed in the council minutes. For this purpose we will extract minutes pertaining to contract performance to be filled in the individual contract file.

#### ***Monitoring, reporting and evaluation of performance requirements included in the contract agreement***

- The condition though not explicitly stated on the contract, the responsible officer's report is tabled in the council meeting as in 6.1.5 above. However we are reviewing our contract documents we will include this requirement with other conditions that the council has already resolved to incorporate in our contract documents.

**Managing complaints on contractors work** - The Council always maintain and update its complaint register on regular basis and complaints are attended to promptly.

### **Nadi Town Council comments**

**Managing contractors' performance** - Absence of proper documentation to assess the monitoring of contractual works exists at Nadi Town Council. We are currently working towards this and at the moment we have a government funded project (New Nadi Market Extension and Vendor Hostel) and have engaged a reputable consultant to monitor the works and the consultant has provided a detail plan with the costing together with the percentage and this is done in joint consultation with the project officer who may be from the Engineering or Building department before the invoice is forwarded to the Finance department to pay. With the current market project, the building department has kept a separate file which accommodates the agreement, plans and all other details.

### **Nasinu Town Council comments**

Nasinu Town Council agree with the two recommendation made for all Councils and we will implement them. The recommendations to improve some clauses in our existing contract agreements to include monitoring, performance, evaluations and reporting will be implemented.

### **Nausori Town Council comments**

A special monitoring policy shall be established by council to ensure amongst other things requirements of documentation of monitoring activities.

Council has established a resolution where overall evaluation of a contractual arrangement (including human resource) is undertaken following expiration of the contract.

### **Suva City Council comments with respect to recommendation to all councils**

Contract performance system is essential to closely follow with Contractors performance for a value for money service. Performance-based service contracting emphasizes that all aspects of an acquisition be structured around the purpose of the work to be performed as opposed to the manner in which the work is to be performed or broad, an objective assessment of contractor performance. It is designed to ensure that



contractors are given freedom to determine how to meet the Council's performance objectives that appropriate performance quality levels are achieved, and that payment is made only for services that meet these levels. The use of these methods should lead to more cost-effective acquisitions, better value, and greater competition. They should have the net effect of shifting some of the manageable performance risk from the municipality to the contractors. Contractors will be given more latitude for determining methods of performance, with more responsibility for performance quality. By doing this the Council should experience fewer cost overruns, schedule delays, and performance problems. This creates a "win/win" situation for both agencies and contractors.

It is important to focus monitoring activity on the key deliverables; very detailed monitoring can be costly and can unduly shift the focus away from achieving the contract outcomes. One thing we need to capture is often it is not practical to neither objectively measure nor document all the works that is required to be done as per scope. This may vary in different sectors/zones/wards largely depending on external factors whereas our Contracts are consistent for all sectors. Having a systematic approach to monitoring, which includes the sort of information required and when it is required, can assist in identifying any potential problems and allow early remedial action to be taken. It also allows timely reporting to senior management and other stakeholders. Obtaining relevant information and data may need to be supported by management information systems or databases. It is important to collect and analyse all the relevant information needed to assess performance. After analysing the information, feedback should be provided to the contractor in a professional and constructive manner and in line with any communications protocol that exists.

#### **Suva City Council**

The Council agrees to some extent with the findings:

- 1) We have in place a rigid performance management system of the Maintenance Contractors, such as daily checklist, fortnightly and monthly report compilation for evaluation & processing of payments. We are working closely with Fiji Roads Authority on this. For now this is being of acceptable level to them. Regardless we will strive to improve upon same to eliminate possible gaps.
- 2) Current practice is that each Department (Health & Engineering) deals with Contracts under their respective responsibility. At Department level Health Department does maintain Inventory of Maintenance Contractors. In addition we do maintain a Complaint Register as well. Likewise we will ensure that the Engineering Department also complies with above. Apart from this the Copies of all contract documents are kept by our Central Registry Section. We are in the process of updating the one kept by Central Registry.

#### **Further OAG Comments**

##### **Suva City Council**

Following further consultations, the Council agreed that the Engineering Department does not conduct performance evaluation of contractors. It intends to develop a Monitoring Policy and to conduct overall evaluation and prepare performance reports for contract works undertaken.



## 7.0 CONCLUSION

- 7.1 None of the Councils visited have developed a policy governing the management of contractual engagements. Most the Councils visited were following tender procedures outlined in the Manual of Accounts for Municipal Councils in Fiji which was endorsed in 1992. Detailed planning of outsourced services were lacking in six of the Councils visited. Further to this risk assessment of contractual activities were not conducted by all the Councils visited.
- 7.2 Generally records maintained on activities relating to contractual engagements needs to be improved. It is pivotal that contract files contain information relating to tender evaluations, contractual agreement, correspondences between the Council and the contractor and other key activities of the engagement. Equally important is the compilation of contracts inventory and contracts register to evidence the contracts undertaken by the Councils over the years.
- 7.3 There is also a need to separate parties currently involved in the evaluation and approval of tender proposals to ensure transparency in the tender process. The criteria for tender evaluation is also lacking in most of the Councils. Contractual agreements being entered into by most of the Councils needs to be reviewed to incorporate other key items highlighted in this report. A few of the Councils also need to have their agreements vetted by a solicitor. Stringent controls also need to be put in place to ensure payments made to contractors are within the requirements of the contract agreement.
- 7.4 Some evidence of monitoring of contractual engagement was noted to have been conducted by most of the Councils; however there have been lack of proper documentations to indicate the results of monitoring works. This anomaly was mainly attributed to the absence of a monitoring policy in place and non-specification of monitoring requirements in the contractual agreements. The evaluation of the contractors' performance and preparation of a contract performance report was not conducted by all the Councils. Such is the case mainly due to the non-inclusion of the requirement in the existing contractual agreement.

## 8.0 REFERENCE

1. Better Practice Guide, Developing and managing contracts getting the right outcome paying the right price (2007); Australian National Audit Office.
2. Contract Management Framework; (2010) Department National Treasury- Republic of South Africa.
3. Contract Management Guide (2007); The Chartered Institute of Purchasing and Supply; Contract Management Guide.
4. Contract Management Guidelines" Supporting Councils in developing a sound, consistent and effective approach to managing their diverse range of contracts; Victoria Local Government.
5. Contract Management Policy (2008); Frances BAARD District Municipality.
6. Manual of Accounts (1992); Department of Local Government.



<p>Report of the Auditor General Performance Audit Volume 1 (Parliamentary Paper No. 5 of 2015</p> <p>- Audit for the year ended 2014</p>	<p>Part B: Audit Findings</p> <p>Please provide an update on the following:</p>	<p>Part B: Audit Findings</p> <p>Please provide update on the following:</p> <p><b>(a) Implementation Arrangements for honouring requirements of MEAs</b></p> <p><b>1. Lack of legislations for the implementations of MEAs</b></p> <p>- This is dependent on the requirement of a particular MEA for instance:</p> <p>i) The Convention on the International Trade of Endangered Species of Wild Fauna and Flora (CITES), requires Fiji to have a legislation. This is to ensure the protection of the endangered species of wild fauna and Flora from commercial trading. Fiji enacted the <b>Endangered and Protected Species (EPS) of 2002 and its subsequent Regulation of 2003</b>, to comply with this requirement. This Act was updated and amended as Act No. 10 of 2017, An Act to amend the Endangered and Protected Species Act 2002.</p> <p>ii) As party to the Convention of Biological Diversity (CBD), Fiji is required to develop a <b>National Biodiversity Strategy and Action Plan (NBSAP)</b>. Fiji's NBSAP was completed in 2005 and endorsed by Cabinet in 2007. In 2010 the process for developing an NBSAP Implementation Framework (IF) commenced. The aim of the NBSAP IF is to guide and drive the implementation of the Fiji NBSAP. The FNBSAP has been revised and updated and a Cabinet Paper drafted for submission to Cabinet. Concurrently the NBSAP IF is in the final process of revision. The process of revising the NBSAP IF includes costing the implementation of the strategy to assist Ministry of Environment request for internal and external budget proposals.</p> <p>iii) The Ramsar Convention on Wetlands of National Importance (<b>Ramsar Convention</b>) requires Fiji to <b>designate Ramsar sites and ensure management plans for such sites</b>. Fiji has declared the Upper Navua Conservation Area (UNCA) a Ramsar site with a temporary management plan in place. Ministry of Environment is in the process of developing a full management plan for the site. The second site</p>
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	<p>that has been proposed and approved by Cabinet is Qoliqoli Cokovata a part of the Great Sea Reef (GSR). The Ministry of Environment will now need to work with stakeholders to develop the management plan for the site. <b>A legislation on Protected Areas to include Ramsar Sites is being considered</b> by the Ministry through the Protected Areas Committee (PAC).</p> <p>iv) The Convention on Migratory Species requires Parties to manage migratory species in particular through the protection of their breeding grounds and migratory pathways and the development of species management plans. While the Ministry of Environment provides the focal point, the Ministry of Fisheries is an implementing partners who are mandated to address these requirements through their policies and work programme.</p>
	<p><b>2. Absence of SOP to outline the processes and how a task is to be implemented.</b></p> <ul style="list-style-type: none"> <li>- The Ministry has recently begun work on drafting of SOPs for the implementation of MEAs and related programs as follows: <ul style="list-style-type: none"> <li>i) Tabua permitting process</li> <li>ii) Non-CITES permitting process</li> <li>iii) CITES registration of companies</li> <li>iv) MEA internal reporting alignment</li> <li>v) NGOs MOU processing</li> <li>vi) Consultancy for National Reports and Plans</li> <li>vii) Free Access and Benefit Sharing of Genetic Resources</li> <li>viii) Organising environmental campaigns</li> <li>ix) Trade under the EPS Act</li> </ul> </li> </ul>
	<p><b>3. Non-existence of national plans for MEAs.</b></p> <ul style="list-style-type: none"> <li>- Please refer 1 above.</li> </ul>
	<p><b>4. Diversion of funds for the implementation of NIP for the Stockholm Convention.</b></p>



	<p>i. Fiji was the second country in the world to ratify the Stockholm Convention, having done so on 20 June 2001. The Convention stands to protect human health and the environment from POPs. The twenty three substances presently addressed under the convention are aldrin, chlordane, dichlorodiphenyltrichloroethane, dieldrin, endrin, heptachlor, hexachlorobenzene, mirex, Polychlorobiphenyl, toxaphene, chlordecone, hexachlorocyclohexane, beta hexachlorocyclohexane, tetrabromodiphenyl ether and pentabromodiphenyl ether, hexabromodiphenyl ether and heptabromodiphenyl ether, perfluorooctane sulfonic acid, its salts and perfluorooctane sulfonyl fluoride, endsulfan, and hexabromocyclododecane.</p>
	<p>ii. Persistent Organic Pollutants (hereinafter referred to as POPs) are a group of chemicals including those that had/have been widely used in agricultural and industrial practices and those unintentionally produced and released from many human activities around the globe.</p>
	<p>iii. These chemicals are:</p> <ul style="list-style-type: none"> <li>a) extremely stable, semi-volatile and persist in the environment;</li> <li>b) bio-accumulate in organisms and food chains;</li> <li>c) are toxic to humans and animals and have chronic effects such as disruption of reproductive, immune and endocrine systems, as well as being carcinogenic; and</li> <li>d) are transported in the environment over long distances far from the points of release.</li> </ul>
	<p>iv. To meet the convention obligations, the MLGHE through the Ministry of Environment had developed its National Implementation Plan (<a href="#">Annex 1 attached NIP.pdf</a>) in 2006 focusing</p>

		<p>on POPs Pesticides, Poly Chlorinated Biphenyls (PCBs), unintentional by products (Dioxins and Furans), stockpiles and contaminated sites, Public Awareness, Information and Education, Research, Development and Monitoring. The goals and objectives of each action plan reflect the requirements of the Stockholm Convention, but are intended to address the specific issues identified as being most relevant for Fiji.</p> <p>v. The NIP (POPS) project unit's handing over after the completion of the project remained incomplete (2006). The implementation of the NIP was also incomplete as the plan was out-dated and needed extensive reviewing and updating.</p> <p>vi. The Project proposal (<b>Annex 2</b>)<u>Project Doc.doc</u> on the Review and Update of the National Implementation Plan (NIP) for the Stockholm Convention on Persistent Organic Pollutants in Fiji was submitted to the Secretariat, UNEP on 30th October, 2013 and it was approved for Global Environment Facility funding of US\$136,986 on 24th February, 2014.</p> <p>a. The Project has one global/regional component and five nationally executed components as follows:</p> <ol style="list-style-type: none"> <li>1. Global/Regional Support Component: i) assessment on the initial NIP development process to identify gaps and needs in regions and countries; ii) enhancement of Stockholm centres clearing house and facilitation of national reports; iii) development of expert database by region, language and field expertise; and iv) development and dissemination of lessons learned.</li> </ol>
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		<p>2. <b>National Component 1:</b> Initiation of the process of reviewing and updating national implementation plans. This is through the assessment of institutional needs and strength.</p> <p>3. <b>National Component 2:</b> Assessment of the national infrastructure and capacity for the management of all POPs, development of the New 11 POPs inventories and updating of the initial 12 POPs inventories and monitor effects of POPs in humans and the environment.</p> <p>4. <b>National Component 3:</b> Development of Action Plans for New POPs and updating of Action Plans for initial POPs including gap analysis.</p> <p>5. <b>National Component 4:</b> Formulation of revised and updated National Implementation Plan with its associated Action Plans for all 23 POPs.</p> <p>6. <b>National Component 5:</b> Endorsement of National Implementation Plan.</p> <p>vii. UNEP will provide assistance through a Project Cooperation Agreement (PCA) with the Fiji Government through the MLGHE.</p> <p>a. The PCA has been vetted by the Solicitor General's Office in 2014</p> <p>b. <b>The above PCA version was revised in 2017</b></p>
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		<p>c. The PCA outlines the responsibilities and commitments of the parties to achieve the objectives and outcomes of the Project.</p> <p>viii. <u>Work Currently Underway at a National Level in 2018 to Progress Signing of PCA for the Review and Update of the Fiji NIP under Stockholm Convention</u></p> <p>a) Currently, MOE is to reviewing the Cabinet Paper for re-submission to SGO for clearance.</p> <p>ix. <u>Project Timelines (Signing of PCA for the Review and Update of the Fiji NIP under Stockholm Convention)</u></p> <p>a) For 24 months from the signing of the Project Cooperation Agreement(PCA)</p> <p><b>5. Lack of alignment between the individual and organisational strategy.</b></p> <p>i. Requirements of CBD, Ramsar and CITES have always been aligned to our Ministry's and Department's planning processes. Outputs and targets in the Ministry's ACP and BP incorporates objectives of CBD, Ramsar and CITES.</p> <p>ii. Apart from the ACP, the NBSAP consolidates the objectives of conservation related MEAs and defines an action plan for each.</p> <p><b>6. Failure to adequately conduct education and awareness on MEAs.</b></p> <p>- Education and Awareness have been organised around commemoration days for MEAs such as;</p> <p>i) World biodiversity Day which is celebrated on annually on the 22<sup>nd</sup> of May.</p> <p>ii) World Wetlands Day celebrated on the 2<sup>nd</sup> of February.</p> <p>iii) World Environment Day on June 5<sup>th</sup></p>
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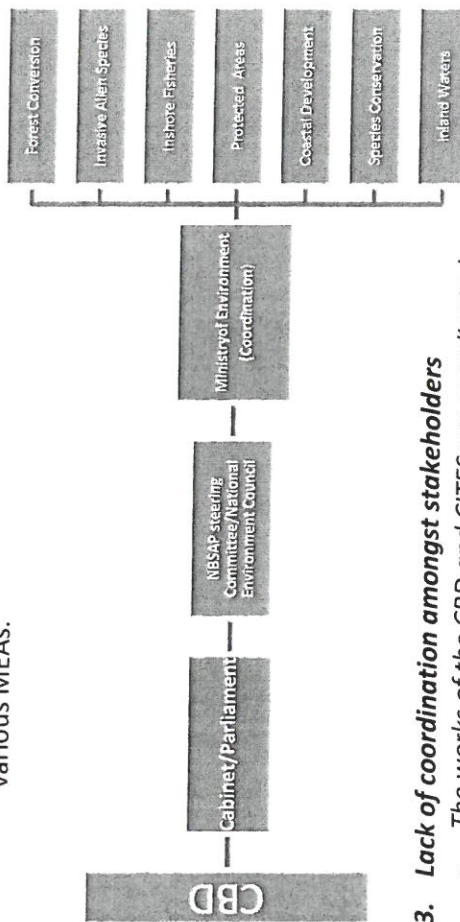


	<ul style="list-style-type: none"> <li>iv) World Ozone Day on September 16th.</li> <li>v) World Water Day</li> <li>vi) World Customs Day</li> </ul> <p>- The days often see various tools and programs developed to disseminate information as widely as possible. These include awareness brochures and factsheet, drop down banners, posters, television and radio commercials, newspaper supplement, talk back shows, etc.</p>
	<p><b>7. Failure to conduct timely and appropriate reviews on the MEAs.</b></p> <ul style="list-style-type: none"> <li>i. Reviews have been a challenge to the Ministry due to manpower limitations. Reviews of MEAs are normally conducted through the mandated implementation framework and only where funds are available as well. Reviews on MEAs are aligned to the Parties decisions taken at the Conference of the Parties (COP). National reports are also mandatory for review and information of the COP.</li> <li>ii. In the case of national legislations such as the EPS Act 2002, review is normally driven by national factors and relevant COP decisions on the MEAs. The EPS Act has been reviewed to accommodate new requirements resulting in the EPS Amendment Act of 2017 which was endorsed by Parliament in 2017.</li> <li>iii. The Fiji NBSAP review process commenced in 2013 based on a COP decision at its 10<sup>th</sup> sitting and finally completed in 2017. The revised NBSAP will be tabled in Cabinet this year, 2018.</li> </ul> <p><b>8. More capacity building is needed for MEAs.</b></p> <ul style="list-style-type: none"> <li>i. International and regional capacity building workshops and meetings have been hosted by the Fiji Government over the years and provided an opportunity for local practitioners and policy makers to</li> </ul>

		<p>participate.</p> <p>ii. Capacity Building technical workshops were organised specifically in collaboration with the CBD, RAMSAR and CITES Convention Secretariats and regional organisations like SPREP targeting practitioners, border control officers, police and RFMF officers, fisheries and forestry officers, policy makers, biosecurity officers, community representatives, and relevant stakeholders</p> <p><b>9. Lack of in-house and capacity building for MEAs.</b></p> <p>i. The Ministry staff have access to capacity building programs annually. These are made possible through their participation in regional and international workshops/meetings.</p> <p><b>10. Adequate management is needed to handle tasks</b></p> <p>i. A strong coalition of commitment and resourcing at all levels has been critical and will continue to play a strong role in ensuring all obligations under MEAs are met.</p>
		<p><b>(b) Accountability and Reporting Relationships</b></p> <p><b>1. Lack of commitment noted at the COP</b></p> <p>- Fiji has been very involved in COP meetings;</p> <p>i. Fiji has been nominated to represent the Asia-Pacific region as COP Bureau member in the CBD.</p> <p>ii. Fiji has been represented at COP meetings and have made interventions accordingly for CBD, Ramsar, CMS and CITES.</p> <p>iii. Fiji's has been influential in the decisions taken at COP, specifically for CITES COP17 in South Africa when Fiji successfully led the proposal to include rays and nautilus in Appendix II of the CITES.</p> <p><b>2. Information from the COP needs to be disseminated to the stakeholders regularly</b></p>



- COP delegates upon their return submitted reports to the management. These reports included decisions of COPs which are then disseminated through the following mechanisms (improvements):
  - i) CITES COP through the Fiji Islands CITES Scientific Council and Fiji CITES Management Authority and the Fiji National Environment Council.
  - ii) CBD COP through the Fiji NBSAP steering Committee and the National Environment Council.
  - iii) Information is also disseminated through the different thematic committees which have been established through the EMA 2005, EPS 2002, and through other mechanisms established under the various MEAs.



### 3. Lack of coordination amongst stakeholders

- The works of the CBD and CITES are coordinated through the following mechanisms:
  - i) Fiji CITES Scientific Council and Fiji CITES Management Authority for CITES, and;
  - ii) CBD is coordinated through the following structure.

		<p><b>4. Unclear roles and accountabilities of focal and implementing agencies.</b></p> <ul style="list-style-type: none"> <li>- <i>Roles is clearly stipulated in the following legislations and policies/Strategies;</i></li> <li>i) EPS Act 2002 for CITES,</li> <li>ii) FNBSAP and FNBSAP – IF clearly articulates the roles of key stakeholders.</li> </ul> <p><b>5. Reports both internal and external needs to be maintained by the Department.</b></p> <ul style="list-style-type: none"> <li>i. This has been the practice and all reports external and internal are kept in the registry of the Department.</li> </ul> <p><b>6. Monitoring of activities in the implementation of the MEAs</b></p> <ul style="list-style-type: none"> <li>i. Monitoring mechanisms and systems are available but lack implementation. It needs strengthening and enhancing to ensure effectiveness. It also needs resources, both financial and personnel.</li> </ul> <p><b>7. MEAs needs to be maintained</b></p> <ul style="list-style-type: none"> <li>i. Fiji needs to ensure all obligations under the various MEAs are maintained. These are internationally legal binding instruments, Fiji as sovereign nation agreed to be party to. By becoming parties to these MEAs, a declaration is made to comply with all requirements of the MEAs.</li> <li>ii. Government will continue to show leadership and political commitment to address MEAs, and resource the appropriate implementation focal points to ensure compliance.</li> </ul>
		<p><b>(c) Overall Conclusion</b></p> <p><i>The effectiveness of the implementation of the requirements of</i></p>



		<p><i>multilateral agreements is weakened by a lack of legislations and policies and the absence of SOP and national plans to support the implementation of certain environmental agreements. There is a lack of formal arrangements between DOE and other stakeholders responsible for the implementation of the requirements of the conventions. However, despite the above and the lack in resources, the DOE and implementing agencies are adequately implementing requirements of multilateral environment agreements.</i></p> <p>i. Ministry has MOUs with Environmental NGOs that are implementing partners for MEAs on the ground. Since most environmental MEAs are trying to address cross-cutting issues, an integrated approach is adopted to implement these MEAs, through the different committees and is driven by sectors that are mandated to address key issues. To enhance what is currently in operational additional resources specifically human resources.</p>
		<p><b>(d) General Recommendations</b></p> <p><i>The audit recommends that the Ministry of Environment intensely pursue the review of the necessary legislation and policies and draft standard operating procedure to empower and ensure consistency in practices undertaken by all stakeholders. Awareness on the conventions and its requirements should be created amongst all stakeholders. Apart from strengthening the management of conventions by ensuring all required documentation are maintained, records management system and reporting system for the conventions are improved, the DOE need to be adequately resourced to enable it to effectively implement the requirements of the MEAs.</i></p> <p>i. Agree with the recommendations, specifically with the need to review SOPs (which is almost complete) and require additional resourcing especially human resources.</p>







# The Ministry Of Infrastructure & Transport

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16 November 2017

our ref: E 50/1/1

Hon. Ashneel Sudhakar  
Chairman, Public Accounts Committee  
Government Building  
Suva

Dear Sir,

**RE: RESPONSES TO THE 2014 AUDITOR- GENERAL'S REPORT (RURAL ELECTRIFICATION PROGRAM)**

Find attached herewith are our responses to the to the 2014 Auditor- Generals Report (Rural Electrification Program).

We are willing to deliberate and clarify any issues you may still have during our meeting on Tuesday 21<sup>st</sup> November 2017.

Yours faithfully

**P.T. SOWANE**

Deputy Secretary Infrastructure  
For: Permanent Secretary

## **PART A: Overview**

### **Management of the Rural Electrification Program**

The Rural Electrification Programme is a rural empowerment program where the Ministry of Infrastructure & Transport through the Department of Energy (DOE) coordinates and facilitates the implementation of electricity supply to our rural and maritime communities. The program is implemented and govern by the Rural Electrification Policy (REP) 1993 and the Standard Operating Procedures (SOP). Subsequent reviews and amendments have been made to certain clauses of the policy to accommodate the decisions by government together with the systems and processes in place. The latest revision was done in 2016 when the government had made a commitment to meet the upfront costs of all rural electrification projects. Having access to electricity is an enabler and a catalyst for socio-economic growth. There are three different forms of schemes provided to rural communities include;

- a. Solar Home Systems
- b. Diesel Generators
- c. Diesel-Solar Hybrid System
- d. FEA Grid Extension

The program is managed by the Rural Electrification Unit under the Department of Energy.

## **PART B: Audit Findings**

### **(a) Management Framework of Rural Electrification Program**

1. **Framework for management of rural electrification projects exists and is defined through the Rural Electrification Policy 1993 and Standard Operating Guidelines. These however need to be reviewed to incorporate current practices, roles and responsibilities.**

- The Ministry noted the comments of the Auditor General's Report. Eventhough there hasn't been any full review done on the REP 1993 but there are amendments done in certain parts/clauses of the policy. In 2008, the government had made a decision to reduce the community contribution from 10 per cent to 5 per cent.
- Subsequently in 2016, the government had made a decision to review certain clauses of the policy which encompasses the following;
  - a. Waiver of community contribution to reciprocate community contribution in kind



- b. Removal of finite assistance for diesel schemes recipients making them eligible for electrification via renewable based technologies like solar home systems
  - c. Increase in the Fiji Electricity Authority's annual Rural Electrification fund
  - d. Increase in validity of FEA Rural Electrification scheme quotations
  - e. The handover of Solar Home Systems ownership and maintenance to community's and recipients
- With the above, the Ministry through the Policy and Planning is undertaking a complete and a holistic review of the policy to incorporate the changes above and other important aspects including the paradigm shift from diesel to renewable energy supplies and the effective management of these systems to ensure its long term sustainability. The review will also look at strengthening the structure of the unit to be more vibrant and cohesive and to respond to the needs of our customers regularly. As part of the review process, a stakeholder consultation meeting will be held shortly to gather the views of all stakeholders involved.
- Furthermore, the Department is also in the process of reviewing its Standard Operating Guidelines to make it relevant, workable and harmonise with the changes and amendments of the policy.

**The current structure of the Department of Energy had been existence for more than 20 years and has an effect on the effective implementation of the program**

- The Department is reviewing its structure to recruit more staff to accommodate the higher demand of applications that we are currently receiving. At the moment the Rural Electrification Unit consists of thirteen (13) technical officers; two (2) Supervisors and one(1) Principal Technical Officer. At the moment the Department is intending to recruit an additional and this is done in close collaboration with review of the REP.
- To ensure successful implementation and monitoring of projects, the Department had transfer three (3) of its technical officers each to be based at the Divisional Engineer Works Western (DEWW) and Divisional Engineer Works North (DEWN) respectively. The decentralisation of our services to the divisions, will also allow easy access to the area of operations and improves our service delivery to our rural customers and attend to their issues and queries in a more timely and efficient manner with the least turnaround time.

**3. There is a need for recruitment of more staff and the provision of adequate training for employee skills enhancement and development.**

- As highlighted above, the Department is currently reviewing its structure to recruit more staff. In addition, the Department continues to send our technical officers to attend local and overseas training on any aspects relating to their field of work. This training ranges from technical, managerial and even with the government policies, systems and processes. Such kind of training will allow the officer to gain more knowledge and skills and apply them into their area of work.

**(b) Administration and Implementation of Rural Electrification Program**

**1. Applications are not always supported by required documentations as required**

- Eventhough some applicants failed to provide the full documentation in their application but these are always verified and scrutinize by our officers before the project proceed to the next stage of its implementation. As part of the process, our technical officers carry out site survey to confirm and authenticate the details of the applicant and assess the viability of the mode of electricity supply applied.

**2. Once installed, use of diesel generator scheme are not always exploited by beneficiaries**

- One of the main challenges faced with the use of diesel generator was on the high cost of fuel. Additionally, lack of maintenance schedule and improper management of the project is also a contributing factor to the unsuccessful operation of the project. As part of its implementation plan, the Department continues to train the village generator operators and electrification committee on all aspects of the project including repair and maintenance, record-keeping and overall management of the project.

**3. There is no approval for variations in parts installed for solar systems and requirements as per the Policy. Recoveries of monthly fees under the RESCO are not evident**

- The DOE have put in place a stringent and transparent monitoring process to ensure that the materials/equipments supplied or installed at the site comply with the standards as per the agreement contract. Some of the components or parts installed eventhough they might have not been listed in the policy will not affect the operation of the system and does not constitute a variation.



- The Department has been working together with the communities and with the post offices in the rural communities on the collection of the monthly rental fees. In addition, some communities prefer to make their payments to the Post Offices which was then paid and reconciled with our Ministry's Accounts team.

**4. Recoveries of community contributions could not be ascertained**

- Most of these communities have made partial payment on their community contributions. When the government made the decision in 2016 to meet the upfront costs of all rural electrification projects, most of these communities were refunded back on their contributions. Hence there are no outstanding payments to be recovered by government.

**5. Records maintenance and security of records is lacking.**

- The Department is working together with the Fiji Renewable Energy Power Projects (FREPP) funded by the United Nation Development Programme (UNDP) to develop a database for the Department. The development of this database will address issues of security of records and also ensure the availability of reports and updates as and when required.

**(c). Monitoring and Inspection of Projects under the REP**

**1. Contradictory reports on inspections**

- When staff engaged on inspection trips, they are provided with the inspection guideline as per the terms and condition of agreement. However there are instances when contractors install sub-standard brands which are not specified in the contract agreement. The Department had addressed and rectify most of these issues with the contractors and penalties are imposed if contractors don't comply with his terms and condition of engagement. This include but not limited to the withholding the release of their payment for that particular stage of work.

**2. Improvements noted in monitoring processes include revision to regularity of contractual payment**

- Before the release of any contractual payment, it is a requirement that Department carries out the inspection for that particular stage of work.

**3. Monitoring activities are hindered by a lack of resources**

- Due to the geographical locations of our islands and communities, it's always a challenge for us to monitor the progress of projects on the ground on a timely basis. The Department is looking at recruiting more staff to beef up with the existing staff structure. In addition, apart from the existing fleet we have, government has also approved the purchase of two (4WD) vehicles which we should be getting in December. One of the vehicles will be based in the Northern and the second one in Central Division. These vehicles will assist us service those projects in the interior which are inaccessible or with a rugged terrain. The decentralisation of our officers to the divisions will complement the Department intention to closely monitor our projects on the ground.
4. **Monitoring and evaluation reports were not submitted for audit scrutiny.**
- This is noted and the Department will provide the monitoring and evaluation reports as and when required.

### **Conclusion**

The Department concur with the recommendation of the Auditor General's Report that there is an urgent need to review the Rural Electrification Policy 1993 together with the SOP. Eventhough the unit lack staffing together with limited resources but the number of projects currently implemented on the ground is a testament of government's commitment to uplift the standard of living of our ordinary Fijians.





# MINISTRY OF ECONOMY

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Ro Lalabalavu House, 370 Victoria Parade, Suva

16 November, 2017

The Chairperson  
Public Accounts Committee  
Parliament of Fiji  
PO Box 2353  
Government Buildings  
**SUVA**

Dear Sir

**Re: Responses to the 2014 Performance Audit Report Volume 1**

Reference is made to your letter dated 1st November 2017 on the aforementioned.

Enclosed herewith is the responses/clarification to the issues raised.

Should you need any further clarification(s), please do not hesitate to contact the undersigned.

Thank you

A handwritten signature in black ink, appearing to read 'Pankaj Singh'.

Pankaj Singh  
for Permanent Secretary for Economy

## STANDING COMMITTEE ON PUBLIC ACCOUNTS

### Response to the 2014 Performance Audit Report

#### 1.0 Scope of Performance Audit

The Performance Audit undertaken by the Office of the Auditor General (OAG) in 2014 focuses on two main areas namely:

- (i) Determinants of public borrowing needs; and
- (ii) Public Debt Reporting

#### MOE Response

MOE as part of reforms have put in place an array of measures to enhance debt management operations. These measures include:

- **Realignment of the Debt Management Office to comprise of Front, Middle and Back office.** Institutional strengthening and capacity building within the Debt Management Unit has been undertaken to ensure adherence to international best practices in public debt management. In a nutshell, the Debt Management Office has been reorganized with 3 sub-offices, with the Front Office being responsible of Portfolio Management, Middle office for Risk Management, Compliance & Reporting and Back Office to be in charge of Settlement & Accounting. The new structure is now in place and operational.
- **From a liability management perspective, Government has ensured that the redemption profile remains smooth and a reasonable average time to maturity of debt that will mitigate any refinancing risk.** Government is also actively exploring options to refinance existing debt if offered more competitive interest rates and tenor. The focus is not only on the level of Debt but also on the composition and overall debt portfolio. As at the end of July 2017 with portfolio mix was 70/30 (+/-) and **Average Term to Maturity** of 7.3 years compared with 6 years as benchmark.

#### 2.0 Determinants of Public Borrowing

The existing legal framework in Fiji provides a clear authority to the Minister of Economy to borrow and undertake other debt management operation. There is a cohesive, coordinated and a collaborative annual budget process that involves a significant amount of information and planning that finally established the quantum of borrowing required for the fiscal year.

- All borrowings are approved through the Parliamentary process. Borrowing at the whole of Government is centralized, with powers delegated to the Minister of Economy and the implementation of the borrowing program by the Ministry of Economy.



- Borrowing Ceiling and Deficit gap is integrated in the Budget statements that is table and endorsed in Parliament during the tabling of the National Budget.
- Government always ensures that borrowings are within the stipulated ceilings and the composition of domestic and external loan are honored.
- The assertion by OAG that domestic interest debt servicing for 2009 and domestic principal repayments 2012 needs to be clarified. For 2009, a key point to note is that the actual debt servicing made was within the aggregate debt servicing budgetary allocation. Specifically, the actual domestic interest payments was higher as there was an upward push in the interest rate which consequentially attributed to high interest payment. This was met from within the aggregate budgetary provision for debt servicing. In respect to 2012, the underpinning reason for actual principal repayment exceeding forecasts was due to Government exercising the Call option which effectively meant redeeming Bonds which carries a higher interest rate. Government has the option to call bonds which ranges from 1 to 3 years with remaining maturity if it deems cost savings can be realized. The estimated savings for the early redemption was around just over \$7.0 million

- **Contingent Liability:**

- (i) **Fiji Sports Council**

Government in 1995 approved a guarantee in relation to a loan funding of \$4.3 million raised for Fiji Sports Council (FSC) to be sourced from the Fiji National Provident Fund (FNPF) and be repaid in 15 years at 8.5 per cent interest. Following the cabinet decision in 2005, Government agreed to repay the loan of \$4.3 million loan. In essence, Government paid \$3.5 million and FSC paid \$0.8 million.

- (iii) **Fiji Sugar Cane Growers Fund (FSCGF)**

This was an arrangement made between Government and the Fiji Development Bank (FDB) and the loan agreement was signed on 26 January 2005. The SCGF, as part of the Sugar Cane Rehabilitation Program, advanced the sum of \$26.8 million dollars to assist in the rehabilitation of sugar cane farms affected by the drought in 1998/1999. With tight financial situation, the Government then requested FDB to pay the sum of \$25.2 million on its behalf, being monies owed to the SCGF. Government has fully repaid the loan to FDB in 2015 as per Cabinet Decision in 2004.

The MOE conducts financial analysis on guaranteed entities which includes information relating to debt exposure, liquidity ratios, cashflow position, maturity profile and current and future soundness. The Ministry conducts regular site visits which includes detailed discussion with management on its plans to repay debt on timely basis and strategic decisions relating to improving the overall business performance.

### 3.0 Public Debt Reporting

Public debt and contingent liabilities of government are adequately reported as required under the Financial Management Act 2004 (FMA). The accuracy and reliability of the reporting of public debt and contingent liability is enhanced by the auditing of records of borrowings. In terms of reporting and adherence to international benchmark, the MOE wishes to state the following:

- Fijian Government has an unblemished record for debt repayment and the country has no history of default or restructure.
- Debt sustainability and ensuring that we operate within the medium term targets has been achieved. Debt as a proportion of GDP has been declining. It was hovering around 53.0 percent in 2006 and gradually declined to 45.5 percent by July 2017.
- Recently, the outlook looks positive with international Rating Agency, Moody's Investors Service has upgraded Fiji's local and foreign currency issuer ratings to Ba3 from B1 and changed the outlook to stable from positive. The notable factors that is driving the rating upgrade and stable outlook are:
  - (1) The strengthening in Fiji's institutional framework and policy effectiveness, aided by political stability which will support economic growth; and
  - (2) The engagement with international financial institutions will continue to enhance government debt affordability and overall fiscal strength.These ratings further demonstrate that Government is well-positioned to absorb any unexpected shocks as it has a strong balance sheet.

### 4.0 Summary

Government borrowing needs have been determined in view of long term sustainability and financial stability. Borrowing needs of government are identified through its structured annual budgetary process and its quantum determined by the magnitude of the annual budget deficit. Borrowing needs have been forecasted or planned as close as possible to annual budget strategies developed by Government to ensure public debt is kept at sustainable levels over the medium term.

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