

VERBATIM NOTES OF THE PUBLIC ACCOUNTS COMMITTEE MEETING HELD IN THE COMMITTEE ROOM (WEST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS, ON TUESDAY, 24TH OCTOBER, 2017 AT 9.33 A.M.

Interviewee/Submittee: Suva City Council (SCC)

In Attendance:

- | | | | |
|----|--------------------|---|-----------------------|
| 1) | Mr. Chandu Umaria | - | Special Administrator |
| 2) | Mr. Bijay Chand | - | Acting CEO |
| 3) | Mr. Vuli Tukana | - | Director, Engineering |
| 4) | Mr. Kavin Rathod | - | Director, Finance |
| 5) | Mr. Naresh Narayan | - | Director, Health |

Office of the Auditor General:

- | | | | |
|----|----------------------|---|-------------------|
| 1) | Mr. Dineshwar Prasad | - | Director of Audit |
| 2) | Mr. Jayant Ram | - | Audit Manager |
| 3) | Mr. Amit Pal | - | A/Senior Auditor |
| 4) | Ms. Nunia. M. | - | Senior Auditor |
| 5) | Ms. Unaisi N. | - | Audit Manager |
| 6) | Mr. Alipate M. | - | SEPO |

MR. CHAIRMAN.- Good morning, Honourable Members, members of the public, media and the Secretariat.

A special welcome to the team from the Suva City Council (SCC), led by the Special Administrator, Mr. Chandu Umaria; Acting CEO, Mr. Bijay Chand; Director of Engineering, Vuli Tukana; Director of Finance, Kevin Rathod; and Director of Health, Mr. Naresh Narayan, for your appearance this morning before this Public Accounts Committee session.

We also have the team from the Auditor-General's Office today, led by the Director of Audit, Mr. Dineshwar Prasad; Mr. Jayant Ram, Mr. Amrit Pal, Ms. Nunia M., Ms. Unaisi N. and Mr. Alipate M. They are here to assist the Public Accounts Committee Members in their work.

Honourable Members and the team from the Suva City Council, you would recall that the SCC Accounts were audited by the Auditor-General and the reports were compiled in the 2014 Volumes that were tabled in Parliament. We have communicated with you our concerns and we are pleased that you have, in fact, responded in a written response that was received this morning.

The Committee Members will be asking questions and issues as we go along. So without taking further of your time, we will now request the SCC to make their introductory remarks and presentation and then take us through the responses and we will ask questions as and when they arise.

MR. B. CHAND.- Thank you, Mr. Chairman, the Suva City Council has gone through the Auditor-General's Report and we have noted the remarks that were made. We have come out with the responses and these are contained in the submission that we have made.

Also, we have got supporting documents to support our claims that certain things were done but they have not been addressed in the Auditor-General's Report.

MR. CHAIRMAN.- Thank you, Auditor-General, we note from the Report that there were 10 issues raised that resulted in the disclaimer opinion, which means that the opinion that was given by you on SCC had 10 major issues which resulted in the disclaimer.

What we would like the SCC to do is to take us through those issues and we will also ask the Auditor-General that at the end of his explanation, please, let us know your views.

The first one that was highlighted is on Page 2 on Audit Opinion: A variance of \$401,275 was noted between the audited closing balance for the Year 2009 and the Council's opening balance for the Year 2010 in the Investment Property Account. The Council did not provide any reason for the change in the opening balance. As a result, the closing balance for the Investment Property Account was understated for the same amount for the year ended, 31st December, 2010.

At the time this Report went to press, the explanation was not forthcoming to the Office of the Auditor-General (OAG) but there is some explanation given by you in the written response. So, please, first explain to us why the response was not given to OAG at that time and the reason for that variance of \$401,275.

MR. K. RATHOD.- Thank you, Mr Chairman, I will go point by point. I will appreciate if you just look at the big file which I have compiled so that it will be easier for you. These are all the responses which were highlighted in the Audit Report as well as some supporting documents which we have provided for each of the points.

What we have done, we have highlighted the issue which was raised in the audit opinion then put our comments. There are supporting documents attached to justify our reason. If you look at the first point, I have highlighted at Reference No. 8.1.1. the variance of \$401,275 which was mainly related to the accumulated depreciation amount for Investment Property.

If you turn to Page 2, you will see the issue highlighted by the auditors that in 2009, the closing balance was \$4.9 million and the opening balance in 2010 was \$4.5 million (I have highlighted that so that it is easier for you to understand). Upon reconciliation, we found out that \$4.5 million is the correct balance and it should not be \$4.9 million but \$4.5 million.

The reason why it was \$4.9 million in 2009 was because there was a reclassifying entry in Note 11. If you look at the next page, there is a Note 11 which says "Variance arising due to reclassification", what happened there was, they could not reconcile and there was the amount of \$572,000 put there. Actually \$401,275 from this amount should have gone in this depreciation amount.

MR. CHAIRMAN.- Why did that happen? The depreciation amount or the Investment Property is pretty simple, is it not?

MR. K. RATHOD.- I really do not know what happened during that year that they passed this.

MR. CHAIRMAN.- Was it an oversight by the previous administration?

MR. K. RATHOD.- What happens is that, overall the fixed asset register is balancing but I think there was issue in the reclassifying entry. If you look at the next page (this one), it shows our General Ledger (GL) balance in 2009, so that schedule shows our total Property Plant and Equipment, and our General Ledger comes to \$43.9 million at the bottom.

The financial statement which was done in 2009 is also \$43.9 million. The variance is just \$6 (that is rounding off), the issue was only in reclassifying, that is just to prove how we arrived at that \$401,275.

MR. CHAIRMAN.- So the general ledger and the financial statements match?

MR. K. RATHOD.- Yes, they match, and the general ledger is taken from our trial balance.

MR. CHAIRMAN.- So the issue of \$401,275 was more on reclassification.

MR. K. RATHOD.- It was in that \$572,000, if you look at the second last line, it should have been allocated into Investment Property.

MR. CHAIRMAN.- That \$572,625?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- OAG, is that sufficient? What the SCC is saying is that the general ledger and the financial statements match. The issue that you raised of \$401,275 is just an issue of reclassification which has been done, that amount slightly varies.

MR. K. RATHOD.- From the financial statement, I have just taken the lump sum figure so there will be a rounding-off error.

MR. CHAIRMAN.- But the variance amount of \$401,275 and the amount here of \$572,625, are they the same?

MR. K. RATHOD.- That is what I am saying, \$572,625 is spread out into three categories. There were actually three issues which were not correctly reflected in the 2009 accounts; one is the investment property value which should be \$16.9 million but it was stated as \$17.1 million.

The other was provision for depreciation which should be \$4.5 million but it was \$4.9 million; and there were some difference in computer software which should have been \$55 million but it was \$63 million, but if you look at the overall basis, it is matching.

MR. CHAIRMAN.- OAG?

MR. D. PRASAD.- Thank you, Mr. Chairman, we would appreciate the written comments from the Council to verify their claims. While I can understand that there was a reclassification but when we initially raised the issue during the audit, the comments were not the same as it is today. So in order to verify their comments, we need to go through the records that they are providing. We can only comment after we have seen their records.

MR. CHAIRMAN.- I understand the OAG's predicament because if their explanations were forthcoming at that time, probably this issue would not have been there in the first place.

MR. K. RATHOD.- Mr. Chairman, because I have worked on this for the past one week, this was when I found out all this, if this would have been highlighted at that time, then the issue would not have come.

MR. CHAIRMAN.- You were not in that position at that time?

MR. K. RATHOD.- No, I joined in December, 2014.

MR. CHAIRMAN.- OAG, any comments?

AUDIT REP.- As this is already stated in their Council Management comments, they have agreed to what we had written at that point in time, so I think when the new Director of Finance came in, he must have looked into it and reconciled. At that point in time when we were auditing, those things were not brought forward, they were not provided to us.

MR. CHAIRMAN.- So hopefully, in the future reports we will not have these problems.

MR. K. RATHOD.- Yes.

MR. CHAIRMAN. - So let us go to the next one, Honourable Members, any questions around that area?

HON. A.M. RADRODRO.- This particular issue on the audit opinion, the Auditor-General has correctly highlighted that the same amount has been reflected in the Investment Property Account. But why did you make the change from the end to the beginning, and not reflect the changes during the year?

MR. K. RATHOD.- When I reconciled the account, that was when I found out that the actual balance should have been \$4.5 million, and not \$4.9 million. In the Financial Report it was disclosed as \$4.9 million but even if I extract the General Ledger (GL) it comes to \$4.5 million, not \$4.9 million. I am not sure of how at that time the financial statement was compiled and given, but I have done a reconciliation to prove that the overall balance is matching.

HON. A.M. RADRODRO.- Just on the overall audit opinion, Auditor-General, you have mentioned that the opinion is a disclaimer opinion. Can you just highlight, for the benefit of the Members of the Committee, what this disclaimer opinion represent?

MR D. PRASAD.- Thank you, Honourable Member, Mr Chairman through you, there are in fact, three types of Audit opinions:

- 1) Qualified Audit opinion;
- 2) Adverse Audit opinion; and the
- 3) Disclaimer of opinion.

For the benefit of Honourable Members, I will probably just briefly describe those three for better understanding. The Qualified Audit opinion is when certain components in the financial statements are mis-stated, which means they are not fairly reported, but the rest of the components in the financial statements are fairly reported. So when the Auditor-General expresses his opinion, he mentions in the opening paragraph “except for”, so that might be except for a few components, but the rest of the components in the financial statements are fairly stated.

Then the second type of opinion is the Adverse Audit opinion, which means that this is a bit sensitive, and also not very good for the entities for which this type of opinion is issued. This basically means that the Auditor-General gives his opinion that the financial statement is not fairly reported, which means there is a pervasive effect on the financial statements because of the mis-statements.

The Disclaimer of opinion is where the Auditor-General does not give any opinion at all. This arises when there is a limitation of scope which means that the documents that the Auditor-General require for auditing purposes or some limitations imposed by the client and certain things like the Auditor-General not being able to obtain sufficient and appropriate audit evidence, then the Auditor-General decides not to issue the audit opinion.

Just for better understanding, for example, if in a financial statement it is an investment company, an investment of about \$1 million out of \$1.2 to \$1.3 million net assets, so if the whole of the investment has no supporting documents for the investment then the Auditor-General will not issue any opinion. There will be a Disclaimer of opinion because we cannot ascertain whether that \$1 million reported as investment is correct or not, because we have not sighted any supporting documents. It could and it could not be correct, so in that case the Auditor-General will not give any opinion, so that is the Disclaimer of opinion where the Auditor-General does not issue the opinion at all because he is not able to satisfy himself based on the limitation of the scope on the audit - his opinion.

MR. CHAIRMAN.- So we understand that at that time when this report was prepared, insufficient documents were given to you that resulted in a disclaimer.

MR. D. PRASAD.- That is right, Mr. Chair, if you will go through the various qualification paragraphs, that very well explains it.

MR. A.M. RADRODRO.- Just for the information of the Committee, this is the latest Audit that was done. What is the up-to-date status of the auditing of the Suva City Council?

MR. K. RATHOD.- The 2011 Accounts have been audited and that have already been given to the Auditor-General's Office. We have outsourced our accounts from 2012 to 2015 to KPMG who are currently working on this and from 2016 onwards, SCC will do it. The 2011 Accounts have been audited.

HON. A.M. RADRODRO.- Why is the delay? With regards to municipalities, the Council is one of the major entities.

MR. K. RATHOD.- I understand, I think there was a backlog at that time but we are trying to just improve and I think probably around next year, we should be up on-line.

MR. CHAIRMAN.- Thank you, can we move to the next one, No. 2?

MR. K. RATHOD.- No. 2 is reflecting the adjustment of \$437,000.

MR. CHAIRMAN.- On which tab and page can we sight those?

MR. K. RATHOD.- Just the next tab, No. 2, with regards to \$437,000, this was an entry passed in the total Municipal Fund.

In the Municipal Fund Account, the only entry which should go in the Municipal Fund Account is the year's surplus or deficit which gets transferred to the Municipal Fund Account. There should not be any other entry going in that code, so if you see this page, this is where the auditors had highlighted that there was a \$437,000 change and if you look at the next page, this \$440,000 mainly came of this ledger entry. This was the ledger entry passed at that time with no supporting document, no journal number and this entry was passed from VAT Account to Municipal Funds - that \$893,000 and then \$431,000 was passed from Accruals to Municipal Funds.

Actually, this entry should not be passed at all because it should only be your profits which gets transferred. So when the 2011 Audit happened, I proposed to KPMG if we could reverse this entry.

MR. CHAIRMAN.- What is the Municipal Council Fund Account used for?

MR. K RATHOD.- It is like a shareholder's equity, so every year's surplus or deficit gets added in that account, since they have incorporated till now, so every year, it will increase or decrease depending on whether there is a surplus or a deficit situation.

MR. CHAIRMAN.- So for this particular case, the entries were not correct?

MR. K. RATHOD.- This entry had been passed. I do not know, maybe it was to balance some accounts, but it should not be passed. So that is why we had proposed, SCC was happy to propose that this entry be reversed.

MR. CHAIRMAN.- Which amount did you ask for reversal?

MR. K. RATHOD.- There is a slight variance but what we are saying, this \$441,000 should not be in the retained profit. When I had done the reconciliation then there is slight variance of \$1,500 so I do not know how that has come but the main entry was this. Even I could not reconcile this \$437,000 which was stated on this one because when I looked at the extraction, there was no entry exactly like \$437,000, it was only \$441,000.

MR. CHAIRMAN.- OAG, any idea why there is a slight variance close to about \$2,000?

MR. D. PRASAD.- Yes, Mr. Chairman, thank you for that query. We need to check this amount because we do not have the records at the moment with us. That amount will be coming straight from the financial statements - General Ledger. We will need to see our record and the record that the Council is showing us, so we will try to reconcile that but the amount that is stated in the qualification comes from the Financial Statements or from the General Ledger at that time, so we will be happy to discuss this amount of \$441,000 with the Council.

MR. CHAIRMAN.- So, you will come back to us on that?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- The main question is, if you have asked the KPMG to reverse this account then where does that money really belong to?

MR. K. RATHOD.- You probably have to hit our Operational Extraordinary

MR. CHAIRMAN.- It is a large amount of money, so we would like to know if it is in a wrong account and it is reversed

MR. K. RATHOD.- No, it definitely would not hit a balance sheet code, it has to go to our Statement of Income and Expenses.

MR. CHAIRMAN.- Has KPMG done that? Has it reversed that amount?

MR. K. RATHOD.- No, I do not think so, we had proposed, I do not know.

MR. D. PRASAD.- In order for us to propose that adjustment, first we need to see the impact of it and whether you are reversing the initial entry that was taken up in the equity, and why it needs to be reversed because before when the entry comes into this statement of changes in equity, it needs to be proposed because I believe this was a journal that was passed and it cannot be passed without authorisation, because it is a very big amount. So, reversing it is just not an easy thing to do, so we need to see if it was initially approved then we need an approval to reverse that approval that was initially given.

MR. K. RATHOD.- No, but that is my point that there is no document of this entry. You cannot find any journal, there is no reference of the journal, that is why I am proposing, because if you do not solve it now, it will keep coming year after year.

MR. CHAIRMAN.- The main issue here is that, these accounts are operated separately because they are for separate different purposes. If the money from one account is shown somewhere else, then there would be

MR. K. RATHOD.- This amount was transferred from the VAT code to this, even that does not make sense.

MR. CHAIRMAN.- Yes, one of the Suva City Council accounts must be in deficit by that amount.

MR. K. RATHOD.- It might be when they were balancing, there might be some entries which were out and might have been off-setted in this code.

MR. CHAIRMAN.- Is any of you on the panel a member at the time when this happened in 2009 or 2010 or all of you are new?

AUDIT REP.- Mr. Umaria was there.

MR. CHAIRMAN.- Mr. Umaria, any explanation? Are you aware of what happened at that time? The question is, there is an amount of \$441,935 that is reflected in an account where it should not be. So, where should it be and if it is reversed, I hope it does not end up

MR. K. RATHOD.- It has to be reversed to Income and Expenditure, it cannot be reversed in any other code because all other codes are reconciling.

MR. CHAIRMAN.- Can that be assisted by Mr. Umaria?

MR. K. RATHOD.- Yes, it is a prior adjustment.

MR. C. UMARIA.- Thank you, Mr. Chairman, I am sorry I am not an accounting person. I am not too aware of the accounts and like my Director of Finance has already explained, we have had about three changes in the position of Director of Finance during my time, so I am not aware of anything, I am sorry.

MR. CHAIRMAN.- Will it be possible for the Director of Finance to have another look at it, you said there is no document available but

MR. K. RATHOD.- No, if I had I would have provided ...

MR. CHAIRMAN.- Yes.

MR. K. RATHOD.- ... or I would have attached them here, but if you look at the transaction, there is no reference at all.

MR. CHAIRMAN.- Is that money still sitting there in the account?

MR. K. RATHOD.- This is not money, this was just a journal entry.

MR. CHAIRMAN.- Yes.

MR. K. RATHOD.- Nothing with cash, it is just a journal entry.

MR. CHAIRMAN.- So, where is the book entry?

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- It is not the actual money or cash, it is just another entry, from one GL to another, that is all.

MR. CHAIRMAN.- All right, you are asking for reversal, it has to be shown in some entry somewhere.

MR. K. RATHOD.- That is what I am saying, it has to be taken up to P&L (Profit & Loss statement).

HON. A.M. RADRODRO.- What is the right P&L?

MR. CHAIRMAN.- Yes.

MR. K. RATHOD.- The right GL balance of retained profit should be less \$401,000 because it all comes down to only the profits which should go here, nothing else.

MR. CHAIRMAN.- OAG, what can be done about that?

MR. D. PRASAD.- Mr. Chairman, normally in this case where there is no proper trail then the only assumption made or probably indicates that it was a balancing item, because normally there would be a trail for any adjustment that is passed in the statement of changes in equity. So, if there was no trail then that indicates it was a balancing item, which means the balance sheet was probably not balancing and then the item was posted in the statement of equity to balance the assets with the equities.

Now, if it is going to be rectified in the 2011 Audit, it means this will go and have an impact on the Income Statement by the same amount.

MR. CHAIRMAN.- It will keep on recurring.

MR. K. RATHOD.- But my thinking is, we have to take it one year or another, so we might as well take it.

HON. M.M.A. DEAN.- But, yes, the reasons and explanations coming out from both sides are understandable but this year we are talking about an independent Committee Report. I think we might have a problem making a conclusion or recommendation on what we are to do with this issue. So, this is why we are stringently asking what actually happened, because I do understand that there are reasons coming from OAG as well as from the Suva City Council but we are sitting here as an independent Committee and we are going to make recommendations which will be tabled in Parliament, that is what our concern is.

MR. CHAIRMAN.- Yes, because the issue here is the perception of the public and the major concern is that, there was an amount that is shown in a particular entry where it was not supposed to be, at some stage either amount has to be scraped off the books (written off), and what the people will think is that, an amount of \$441,000 has been taken away.

HON. M.M.A. DEAN.- I am sure everyone is aware that the amount of attention is written off

MR. CHAIRMAN.- Yes.

HON. M.M.A. DEAN.- Eventually, it all reflects back to the Public Accounts Committee.

MR. CHAIRMAN.- So, can another attempt be made for the Director of Finance to probably come back to us on this one? If KPMG reverses it, you say it has to go in P&L, if that happens then it will affect the balance or reconciliation of that account as well. It will be shown as an income or a profit which might be

HON. A.M. RADRODRO.- What is the correct amount?

MR. K. RATHOD.- It will be less by \$441,000.

MR. CHAIRMAN.- Less meaning,

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- The way I reconciled the Municipal Fund in 2011, I picked up financials from when we started till to-date and then I have added every year's profit to try to come up to the retained earnings amount.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- No, no, that is what I am saying, it will be \$43 million but less \$441,000

HON. A.M. RADRODRO.- Probably, you can come back with that.

MR. K. RATHOD.- Yes, we can come back with that.

MR. CHAIRMAN.- All right, can you tell me what actually constitutes to the municipal councils' profit and losses. What is reflected? What sort of profits do you make? What sort of losses do you make in a year?

MR. K. RATHOD.- Usually, we make a

MR. CHAIRMAN.- Your revenue is from rates

MR. K. RATHOD.- Yes, mainly from rates, you can say 63 percent is from rates, then we have other sources of income like rental income, market, but we are looking at roughly around \$30 million turnover.

MR. CHAIRMAN.- And the losses?

MR. K. RATHOD.- Our expenses are a bit lower than that, our accounts have not been audited from 2012 onwards but usually we have surplus situations. So, whatever the surplus is for one year, that whole amount gets transferred to this Municipal Fund Account so in order to reconcile Municipal Fund Account, we just look at every year's profit, add, that should come to \$43 million.

MR. CHAIRMAN.- There are two questions that arise now: why have not you been audited after 2011; and why have you not been submitting your accounts?

MR. K. RATHOD.- The 2011 Accounts have been audited, KPMG is still compiling the 2012 to 2015 Reports

MR. CHAIRMAN.- All right, KPMG is still compiling.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- No, they have outsourced the 2011 Accounts to KPMG. They had done the audit but this is something which the Council is doing.

MR. CHAIRMAN.- Coming back to that issue, you said that any surplus will then be transferred to this particular account?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- So whatever the surplus is, minus \$441,935 that shows the actual balance?

MR. K. RATHOD.- Yes, so in here it is a negative \$431 so it will be minus \$441, actually it will increase the retained profits.

MR. CHAIRMAN.- What is this Fund or balance here usually apply to - for capital development?

MR. K. RATHOD.- It is more like an equity, just to show what our Municipal Funds balance was when we started up till now, so it is basically our profits.

MR. CHAIRMAN.- It will never reflect what is actually at the bank?

MR. K. RATHOD.- No, this is like every year's profits get transferred to this so this balance of \$43 million is basically all years' profits since the Council started, you add them all up and it comes to \$43 million, that is our profit.

MR. CHAIRMAN.- It is a figure in theory, it is not what

MR. K. RATHOD.- What I have done is, I have got financials right up till 1970, so I picked all the financials, found out all the profits added and it came to that \$43 million.

MR. CHAIRMAN.- Right, so that \$43 million is there somewhere physically or is it just a book entry?

MR. K. RATHOD.- It is a book entry, not cash.

MR. CHAIRMAN.- That is the biggest question that we will have, it is a book entry we understand. That means what actually is shown you have been accumulating surplus, I understand, for a number of years to reach that amount of \$43 million.

MR. K. RATHOD.- Yes, otherwise this entry has to first show that balance sheet balances because this is shown under your liabilities and in order for the balance sheet to match, this entry has

MR. CHAIRMAN.- So for this particular account, what actually is at the bank?

MR. K. RATHOD.- I beg your pardon?

MR. CHAIRMAN.- With this particular account, is there something at the bank?

MR. K. RATHOD.- No.

MR. CHAIRMAN.- It is just a book entry? OAG, is that how it is supposed to be?

MR. D. PRASAD.- Mr. Chair, thank you, just to add further to the Council's comments, the balance that is there as equity, does not necessarily have to be tying up with the cash at bank because what happens is that, the councils also invest funds in capital projects, so the reflection in the arrears is that, the total equity should always equal to the net assets.

So the net assets comprise of the cash at bank and all the other assets. So these Funds - the cash that we are discussing now, is tied up with those investments, like investments in capital projects, fixed assets, so that should balance up with that equity, so not necessarily that, whatever the total equity of \$43 million is, it should be \$43 million cash.

MR. CHAIRMAN.- It can be cash, current assets, fixed assets?

MR. D. PRASAD.- Yes.

MR. CHAIRMAN.- But what is the margin of error; what would be the usual variance and error because these are committed over the years, obviously? It is taken out from the Profit and Loss Accounts, taken from the Fixed Assets, the Ledger, so all that have to tally.

The pertinent question here is that there is an amount of \$441,000, everything that is shown in that account less \$441,935 should be the actual picture that we should get. Now, what is the usual variance? Over the years, if something goes wrong, something is mis-posted, idly what should be the margin of error, not \$441,000, I presume.

MR. D. PRASAD.- That is very difficult to determine, Mr. Chair, because normally in accounting terms, there is no guidance or policy that tells us about what should be the margin of

error. It does happen like I have said when accounts are being prepared and when the net assets do not tally with the equity, the clients normally sometimes make a decision to post it against the equity. The assumption with the client is that anything that reaches the equity will pass through the Income Statement which is through Income and Expenditure. So if there is a variance between net assets and equity then obviously something has not been included in the Income Statement so they adjust it in the equity.

But answering your question, Mr. Chair, on the margin of error, there is no such standard or a policy that really governs what should be the margin of error.

HON. A.M. RADRODRO.- The Auditor's standard?

MR. D. PRASAD.- There is no standard on margin of error, are you talking about materiality?

HON. A.M. RADRODRO.- Yes, the same thing.

AUDIT REP.- Yes, on acceptance, 5 to 10 percent we accept so this amount of \$441,000 we are talking about, I think, is within that percentage of \$43 million, so if we talk about \$43 million, it becomes 10 percent so it is quite material, that is why it was highlighted as a qualification issue.

MR. CHAIRMAN.- So that amount of \$441,000 could be accumulated over the years?

MR. D. PRASAD.- No, it was a one-transaction entry.

HON. A.M. RADRODRO.- (Inaudible)

MR. CHAIRMAN.- All right, so Suva City Council will come back to us with another attempt to see if they can find where that amount is.

HON. A.M. RADRODRO.- Mr. Chair, just a question to the Suva City Council: with all these audit issues that have been highlighted and the amounts involved, were there any actions taken against the people that were involved in these particular mis-postings or postings done without authorisation?

MR. K. RATHOD.- Those officers who compiled the 2010 Accounts are not working for SCC now. The last Director of Finance was terminated and I think other senior staff have also left.

MR. CHAIRMAN.- This is actually what happens in a lot of entities. As soon as someone finds out there is a problem, either quitting the job or terminated, when we have no records, we cannot find out what actually happened. There are some issues of that nature raised here, let us go one by one on that.

HON. A.M. RADRODRO.- A question to that: these audit issues would have been brought to the attention of the Council well before people have moved out, so did the Council receive these audit issues that would allow them to take necessary actions against the officers involved? Why did they not do anything at that time? This is the 2010 Audit, when did you get the audit done; was it 2011, 2012?

MR. B. CHAND.- It was audited in 2013.

MR. CHAIRMAN.- Because the OAG cannot do much if their accounts do not come to them, the first stage would be, the Suva City Council will have no idea of what transpired until it comes to you, right?

MR. J. RAM.- For your information, Honourable Committee Members, the OAG made a lot of requests to the Council regarding the accounts, so they were not coming forth.

MR. CHAIRMAN.- You have an MOU with the FICAC, is there an arrangement that if you find something you would refer it to FICAC, OAG?

MR. D. PRASAD.- There is a procedure that if you find something that requires the attention of FICAC then it depends on the Auditor-General how he wants to report it to FICAC, so that decision comes from the Auditor-General.

MR. CHAIRMAN.- I think there was some discussion around that, that if the Auditor-General finds something that there is a Memorandum of Understanding between them and FICAC, there is a reporting procedure, I think, maybe you can verify that later.

Let us get to the next one, Point No. 3: Director of Finance, the Council recorded the Administration Operating cost of \$6.76 million in this statement of comprehensive income. However, the Council had Administration and Operating cost balance of \$8.73 million in General Ledger, a variance of \$1.9 million.

MR. K. RATHOD.- The trial balance of 2010 is derived from the General Ledger and we used that to then make the financials. Now, I have done a reconciliation on the next page.

MR. CHAIRMAN.- Tab No.?

MR. K. RATHOD.- Next page, next tab.

MR. CHAIRMAN.- Tab 2?

MR. K. RATHOD.- Same tab but the next page. This is the General Ledger balance of 2010 and the Audited Financials of 2010. If you look at the variance, the overall amount was matching, it was out by about \$1500 but the overall amount was matching. The main misallocation was between the Administrative and Operating cost and the User Maintenance cost, which I have stated in that page.

Rightfully, the Administration and the Operating cost should have been \$9.4 million but in the accounts, it was written as \$6.7 million and the User Maintenance Cost should have been \$3.2 million but it was written as \$5.9 million. Overall if you look at it, our P&L with the GL and the financials are matching but it was the misallocation between those two codes.

MR. CHAIRMAN.- There is an amount of \$1,517 that is just out now?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- All right, you were saying that the entries were not correct. The amount that was written off there in terms of User Maintenance Cost and the other one do not reflect what it should have been? How would that arise, why would that happen?

MR. K. RATHOD.- What we do is we have a chart of accounts and our expenses codes so what we do is, certain expenses code we group under User Maintenance Cost and certain expenses we group under Administration which we think is relating to that area. I really do not know at that time what codes were used to come to that \$6.7 million, but to our knowledge, the Administration and Operating cost should have been \$9.4 million and the User Maintenance Cost should have been \$3.2 million, but if you look at it on an overall basis, it is matching. It is just the allocation issue which was the major concern.

MR. CHAIRMAN.- It is just the question of allocation, what usually constitutes User Maintenance Cost? What does that constitute, say you group it together, if there are small amounts?

MR. K. RATHOD.- User Maintenance Cost, I think, includes public utilities. I do not have the GL codes with me but there is a list of codes which go in the User Maintenance Cost, it is usually the public convenience.

MR. CHAIRMAN.- Is it an income account or an expense account?

MR. K. RATHOD.- No, expenses account - both come under expenses account.

MR. CHAIRMAN.- Is the public convenience an expense account?

MR. K. RATHOD.- I need to check, I do not have the details with me at the moment.

MR. CHAIRMAN.- That is what I was thinking because that money should be revenue

MR. K. RATHOD.- I am sorry, that should be revenue and not expenses, may be cleaning materials.

MR. CHAIRMAN.- All right, maintenance, painting, windows, air fresheners though I do not find any air fresheners in any of the Suva City Council public convenience.

HON. A.M. RADRODRO.- To the Auditor General: how come you did not get this clarification and verification of this amount during your audit when it is clearly stated here that the difference is not \$1.9 million, it is only \$1,500 so how did you come up with those figures?

MR. CHAIRMAN.- The first thing is that, they got it three years later but then they take it from there.

AUDIT REP.- Thank you, Honourable Member, the comments that we are getting now from the Director of Finance are that such comments and explanations were not provided to us during the audit at that time.

MR. CHAIRMAN.- Who was the Director of Finance at that time?

AUDIT REP.- There was a guy called Salen.

MR. CHAIRMAN.- There is a Revenue Accountant, Archana Singh, mentioned here at 8.11 who also did not give any answers.

MR. K. RATHOD.- She is just our Revenue Accountant, a supervisor.

MR. CHAIRMAN.- All right, yes, please, OAG.

AUDIT REP.- So the comments that we are getting now from the Director of Finance we were not getting during the time of audit. Like I have said previously, in order to accept their comments, we need to go back and check the validity of the comments because the comments that were provided to us during the audit.

If you look at 8.8 on the comments of the Council, simply mention there that the Council will ensure that correct amounts are posted in the General Ledger (GL) and consequently the Financial Statements drawn from the Trial Balance. So there was no argument or no explanation provided to us at that time.

MR. CHAIRMAN.- It seems that the current Director of Finance, Mr. Rathod, is up-to-date with the accounts which look good, it is a question of why it was not done at that time.

Secondly, on these little amounts here, he cannot do much, he was not there but he is looking at the books and preparing it for the best of our knowledge, but it makes the work very hard when those things are not done in the first instance.

MR. K. RATHOD.- In 2008, we did a change in the accounting system from Winbiz to Navision.

MR. CHAIRMAN.- Can we move to the next one, please?

MR. K. RATHOD.- You can look at the next Tab No. 4.

MR. CHAIRMAN.- Tab No. 4, the question here is that: The Council had Trade and Other Receivables balance of about \$6,785 million as stated in Note No. 6. The audit was not able to verify the existence, completeness and accuracy of debtors' balance amounting to \$1.948 million which comprised of business licence, bus debtors, engineering debtors, health debtors, staff debtors, parking meter debtors as subsidiary listings for these debtors were not provided by the Council.

As a result, the audit was not able to ascertain whether Trade and Other Receivables balance of \$6.785 million in Note No. 6 are fairly stated.

For the information of the members of the public, these little amounts there are substantial revenue for the Council - the amount we put in for the parking meter fees, licences, et cetera. These are essential revenue for the Council which they use to apply in other maintenance works, like street painting, et cetera. I believe, that is not just fairly reflected, we all know what actually became of those sums, so Director of Finance, please, let us know?

MR. K. RATHOD.- We have two billing systems: one is Property Wise System which builds our rates, garbage, business licence and the main billing. Then there is an accounting software which is Navision.

We do invoicing in Property Wise System and we do invoicing in Navision Accounting System. Both the systems can generate aging report. At that time I do not know why it was not provided but what I have done, if you can look at the other pages, 6.7 constitute of all these debtors and after that what I have done, I have shown you samples of the 2010 balances aging report.

We have aging report for engineering, health, staff, et cetera. Actually, I have generated aging report for all, so it gives you the names of the businesses, the amounts and how much they owe in which particular period so this is what the auditors were after, that there is no subsidiary distinct of the amount of \$6.7 million, so what I have stated is, I have given the aging report which reconciles with the 2010 balances.

There are two reports which I have not attached here which are the reports for parking meters and business licences. I have got a soft copy which I can provide to the Committee. It is a very huge document, has a lot of pages so I did not print that out but the aging report is available for parking meter and for business licences, it matches with the amount. So it is by each ticket number, the person and the business licence is also by businesses. It all sums up to the amount stated in the Audit Report.

MR. CHAIRMAN.- Every payment that is made to the Council or made out of the Council must be on a revenue receipt, every payment that is made, a receipt is issued for that?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- So it is just a question of someone sitting through.

MR. K. RATHOD.- The issue here was that there was an amount, there is a subsidiary ledger and a control ledger. The subsidiary ledger should give a backup of what the control amount is.

MR. CHAIRMAN.- Right.

MR. K. RATHOD.- So, at that time the control amount was not being provided to the auditors. So, what I have stated is, I have given you justifications that the 2010 aging report is there.

MR. CHAIRMAN.- All right, it is there, you just made it available for OAG.

MR. K. RATHOD.- It is there, even the balances are matching.

MR. CHAIRMAN.- All right.

MR. K. RATHOD.- The only two soft copies I have, even if the Committee wants, I can give it, no issue.

MR. CHAIRMAN.- OAG, as they are saying, everything matches, at that time it was not matching. Probably, it was not provided to you?

MR. D. PRASAD.- Yes, Mr. Chair, if you look at the comments on 8.12, Trade Receivable, the Council had agreed that they were looking at the reconciliations and they will ensure that their listing is maintained.

In addition, when we issued the accounts for signing with the draft audit report those qualifications were there. So at that time the opportunity was given to the Council to provide the records and supporting documents if those issues need to be deleted from our report, but that was not done at that time. I really do not know why it was not done but we would also be interested in those comments that the Director of Finance is providing to the Committee for our record purposes.

MR. CHAIRMAN.- The last time when we had the Auditor-General here, there is a nine-step system to get to the final accounts - we do a draft and there is an exit meeting that is also held. At that stage, if there is anything that is pending, it should be sorted out at that stage. If it keeps remaining, then this is what we get, we get it here. I mean that is why we always emphasise that this Public Accounts Committee is the final stage where everything is to be sorted out. We are pleased that you have given us some documents or giving explanations but had this been forthcoming, probably it would not have come up here. When these things go out to the public in the first stage, everyone starts thinking that a lot of money has been missing, someone is pocketed, et cetera, that is the main issue.

Probably now henceforth, the Department would be giving them regular explanations. There is the nine-point system, and there are at least four opportunities for the respective entities to give explanations to OAG.

HON. M.M.A. DEAN.- I have a question for Director, Finance: I can see in this Report that there are Government enterprises as well as debtors.

MR. CHAIRMAN.- The Ministry of Labour.

HON. M.M.A. DEAN.- There is the Ministry of Labour, this is 2010, what is the current status, especially when it comes to government enterprises, being debtors?

MR. K. RATHOD.- We have a revenue team who is specifically targeted to follow up on areas for these institutions so their job is to send all the invoices and do follow-ups with the respective departments.

HON. M.M.A. DEAN.- Because here, we are talking about debts like health licence, business licence, et cetera.

MR. K. RATHOD.- These ones are not relating to rates, garbage which are sundry billing, some are for property rentals, other miscellaneous works which we might have done for some departments so we then bill them. They have requested SCC to do some particular job so we do the job and invoice it. These reports are the ones which are generated from our Navision Accounting System, not our billing system. This is not to do with the billing system. The billing system involves parking meters, business licences and the rates.

HON. M.M.A. DEAN.- I have a general question on the parking metre system. In terms of revenue collection, has the income-generation improved and become more efficient compared to the old system of putting coins in and someone manually taking it out, et cetera. Has the system improved in terms of revenue-generation - the digital system compared to that old physical system?

MR. CHAIRMAN.- They still put coins in, it is just the question of putting a paper on the dashboard, previously it had the “expired” slip on the machine.

MR. K. RATHOD.- The coin system is still going.

HON. M.M.A. DEAN.- Yes, I know but for example, in Suva, mostly we have the digital system. The manual coin system probably we will find it mostly in the Western Town Council.

MR. K. RATHOD.- What happens is that every third week or so, the parking meter teams go out to the streets and take out meters from the parking meter machine with a supervisor there.

MR. CHAIRMAN.- Coins.

MR. K. RATHOD.- Yes, the coin box is not opened there. The person who has the key opens it with the supervisor there, and they take the box, note the meter number and then there is a slip which comes out every time we take the meter out. That it is taken to our Head Office where it is counted. There is also a camera installed, that too is checked and there is an independent auditor, plus a representative from Finance who does the checking of the parking collection meters.

HON. M.M.A. DEAN.- This is the new parking meter you are talking about?

MR. K. RATHOD.- Yes.

HON. M.M.A. DEAN.- How about the old one, the system remains the same?

MR. K. RATHOD.- No, the old one also generates the receipt.

HON. M.M.A. DEAN.- It also generates receipt?

MR. K. RATHOD.- No.

HON. M.M.A. DEAN.- No, it does not.

MR. K. RATHOD.- You are talking about the archaic one.

HON. M.M.A. DEAN.- The archaic one.

MR. K. RATHOD.- No.

HON. M.M.A. DEAN.- Because it is still in existence.

MR. CHAIRMAN.- What they do in those towns is that

MR. K. RATHOD.- We have our new parking meters.

MR. CHAIRMAN.- Yes.

MR. K. RATHOD.- Ours are all new.

MR. CHAIRMAN.- You still put the new coins in, get a receipt and that has got a box. The older one, people carry a wheelbarrow and a milk can kind-of-container to get all the coins in.

HON. M.M.A. DEAN.- That is what I am trying to drive at. When it comes to revenue-generation and efficiency in terms of recording, the new system

MR. CHAIRMAN.- Yes, will be better.

HON. M.M.A. DEAN.- Yes.

MR. CHAIRMAN.- Because in this case, the coin boxes are actually opened in the office. In the old system, the coins would fall in that container when you open the meter.

HON. M.M.A. DEAN.- So until and unless you change all those old ones, you will still have revenue-generation problem.

MR. CHAIRMAN.- Yes, in Suva there are no old ones.

HON. M.M.A. DEAN.- No, they are all phased out.

MR. CHAIRMAN.- It is pretty expensive to install those electronic machines, is it not? It costs hundreds to thousands of dollars.

HON. M.M.A. DEAN.- So, has there been any internal circular or directive given from the main Ministry that in all the councils, it should

MR. K. RATHOD.- No.

HON. M.M.A DEAN.- Not, yet?

MR. K. RATHOD.- No.

HON. M.M.A. DEAN.- So we presume that the system will still remain for some time.

HON. M.M.A DEAN.- All right, affordability.

MR. CHAIRMAN.- That is the question that we will put to the ministries.

HON. M.M.A. DEAN.- All right.

(Inaudible)

HON. M.M.A. DEAN.- Fare meter.

MR. CHAIRMAN.- The manual one or the electronic one?

HON. M.M.A. DEAN.- The electronic one.

(Inaudible)

HON. M.M.A. DEAN.- Affordability, and that is why in smaller councils too they have that.

MR. CHAIRMAN.- If you do not put coins in, they will never be able to pay it off. So, you have to put the coins in. All right, let us move to the next one.

HON. A.M. RADRORO.- On the parking meters, CEO, regarding the availability of parking spaces, you will see the increasing number of vehicles and interestingly also parking meter debtors have also increased. What is the plan going forward for the Council in terms of provision of parking area within the city boundaries?

MR. CHAIRMAN.- The last two are not audit issues, it is just for general clarifications.

(Inaudible)

MR. B. CHAND.- What is happening now, owners of all the buildings whose building plans are coming in are required to provide on-site parking for their tenants and in the case of supermarkets, cinemas, et cetera, they are required to provide adequate car parking facilities as per the Town Planning Act requirements.

HON. A.M. RADRODRO.- (Inaudible)

MR. B. CHAND.- I would not have the figure with me. We will have to get the accounts too, but moving forward, we have got our own car park spaces where we will be developing multi-

storey car parks but we are supposed to go into partnership because we do not have that affordability now to do it on our own. So, Government is now asking us to go into partnership with commercial developments plus car parking spaces, so this is how we move forward on this.

HON. A.M. RADRODRO.- (Inaudible)

MR. CHAIRMAN.- On the new building plans as you have said, you have mentioned the plans, I have seen in other countries that they have got underground or overhead parking or probably on the top floor where you have parking facilities, is that also included in the plans now?

MR. B. CHAND.- Where feasible, some investors are providing underground parking, just to save space.

MR. CHAIRMAN.- Yes.

MR. B. CHAND.- A lot of them are not doing that because of the high water table so the cost of having basement car parking is very costly. So they would not prefer to have underground parking because of the high water table and the cost.

MR. CHAIRMAN.- So you have a strong foundation.

HON. A. RADRODRO.- (Inaudible)

MR. B. CHAND.- We do not have any control over those commercial car parking by private companies, just like we have the Sports World, et cetera, we do not have any control.

MR. CHAIRMAN.- If you are talking about Damodar City, it is best that you talk to the guy.

HON. A.M. RADRODRO.- These parking meter debtors, you have about \$1.6 million in 2010, these are all relating to Traffic Infringement Notices (TINs). Why are you recording it as your debtors when after 30 days it goes to LTA and the court?

MR. B. CHAND.- The reason we have this with LTA is because the TINs issued by SCC are paid to SCC, not to LTA.

MR. CHAIRMAN.- Even if it goes to court?

HON. A.M. RADRODRO.- (Inaudible)

MR. B. CHAND.- Yes, it is paid to the Council.

MR. CHAIRMAN.- Still comes back to the Council?

MR. B. CHAND.- Re-do the prosecution on that as well, we appear.

HON. A.M. RADRODRO.- (Inaudible)

AUDIT REP.- Honourable Member, your comment is noted by the OAG, we have not checked that for the 2010 Audit but we will check that in our next audit.

MR. CHAIRMAN.- Let us move to the next one, No. 5, “The Council had Inventories balance of \$466,636 as stated in Note No. 5. The audit was not able to verify the existence and valuation of the Inventory as no stocktake was carried out by the Council. As a result, the audit was not able to ascertain whether the Inventory balance of \$466,636 is fairly stated in the Statement of Financial Position.”

MR. K. RATHOD.- We agree that there was no stocktake for 2010 but what we have done is like going forward, the Council does its annual stocktake every year and this is usually done in December. We also send out the invitation to the Auditor-General’s Office to be present at various stocktakes and cash venues for verification. There is also subsidiary module available in Navision which gives the stock listing so this is just the sample of stocktake report, subsidiary listing which we have in the system.

I have also just attached a letter which we usually send to the Auditor’s Office. If you look at No. 8 observer, we have stated that nominees of the Auditor-General’s Office are invited to be present at various stocktake and cash counts for verification, so we agree that the 2010 was not done but going forward, we are improving.

MR. CHAIRMAN.- The stock we are talking about here is this wire, nail, et cetera?

MR. K. RATHOD.- These are more stationery but our stock is mainly used by ourselves. We do not really sell it to the public.

MR. CHAIRMAN.- You buy it to do your own maintenance, and where is it kept?

MR. K. RATHOD.- Majority is kept in our Samabula Depot.

MR. CHAIRMAN.- So this stocktake is supposed to be carried out there, at Samabula Depot?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- Is that being currently carried out?

MR. K. RATHOD.- We do annual stocktake at the end where we also send invitations to them.

MR. CHAIRMAN.- Do you still have the system of stock cards, things moving in and out and the storeman is responsible?

MR. K. RATHOD.- Yes, that is there.

MR. CHAIRMAN.- Because a lot of cases we have found that the storeman is sleeping on the job, he does not know what is coming in and what is going out.

MR. K. RATHOD.- Usually they have to fill what stock is in and out and there is also a subsidiary ledger in our Navision System.

MR. CHAIRMAN.- Do you invite OAG to be with you when you do the stocktake?

MR. K. RATHOD.- Yes, that is what I have stated in the letter. In this letter, this is a circular which is sent internally. If you look at No. 8, this is also copied (cc) to the Auditor General's Office. If you look at No. 8, we are also saying that nominees of the Auditor-General's Office are invited.

MR. CHAIRMAN.- OAG, do you have enough people to attend the stocktake which usually takes a day or so?

AUDIT REP.- Thank you, Mr. Chairman, normally what we do is that we do random checks on our stocktakes. At the end of the year, there is a lot of clients with stocks so we do a random selection of the places that we need to go and visit and we also look at the dollar value. If the dollar value is quite significant that it will affect the financial statements or if there is not adequate internal control system that will safeguard the loss of assets then based on the risk factor, we do attend the stocktakes.

But for example, if the amount of the stock is insignificant and the control is quite adequate and we are happy with their controls then we do not attend the stocktakes but we rely heavily on the internal controls that is inbuilt in the system of the clients, so that is the procedure we follow.

MR. CHAIRMAN.- We note that.

HON. AM. RADRODRO.- Apart from the annual stocktake, do you do your regular monthly, quarterly or half-yearly stocktake during the year?

MR. K. RATHOD.- The Internal Audit Department at times does a random check.

HON. A.M. RADRODRO.- Do you have your standard policy and procedure in place for the regular conduct of stocktake? The amount of \$500,000, I think there is a need to have regular stocktake because from this listing, the description of items in stock are very much small, can take away?

MR. CHAIRMAN.- Yes.

MR. B. CHAND.- Yes, what we normally do, our internal auditor usually carries out surprise checks.

MR. CHAIRMAN.- Packets of nails can easily go missing, No. 6 has a bigger sum there, probably another book issue but, please, explain to us: "The Council made adjustments of \$16.229 million to Investment Property balance. As a result, the Investment Property balance decreased to \$11.457 million. The Council did not provide details of this adjustment. The audit was not able to substantiate the correctness of Investment Properties balance totalling \$11.457 million stated in the Statement of Financial Position", what does it comprise of?

MR. K. RATHOD.- What happens is, the adjustment of \$16 million was done to reflect the balance of Investment Property. At that time, it was grouped under "Building and Work In Progress". So those properties which earn revenue for us are Investment Properties so we need to classify them under "Investment Properties" rather than under "Building". That entry was passed from the Building code and from our Work-In-Progress to Investment Property.

If you look at the next Page, this is the breakdown of the whole \$16 million.

MR. CHAIRMAN.- Is it so that at that time in 2010, you had Investment Property?

MR. K. RATHOD.- At that time, they did not provide the schedule but these are all the properties which constitute or make up that \$16.229 million.

MR. CHAIRMAN.- So the question here is that, as a result the balance decreased too, the adjustment was not made properly, the balance decreased to \$11.45 million, so what is the true figure for some of these properties here?

MR. K. RATHOD.- The Investment Property amount is \$16.2 million. The issue was that we were classifying it in (if you look at the next Page) the \$16.2 million adjustment. The cost transferred from it was taken out from the Building code, so it was all grouped under the Building code but the properties which earned revenue have to be classified in the Investment Properties, so this journal was done to put the amount.

MR. CHAIRMAN.- So some amounts there are mis-posted?

MR. K. RATHOD.- Yes.

(Inaudible)

MR. K. RATHOD.- Yes, this is a journal entry, so it is going from one Property Plant Equipment code to another, but it is staying within that Property Plant Equipment.

MR. CHAIRMAN.- OAG, the explanation is that, the actual value of Municipal Properties is \$16.2 to \$9 million, it is just a question of mis-posting where some things were posted probably in the wrong ledger which showed a drop in balance to \$11.457 million. Is that sufficient explanation?

MR. D. PRASAD.- Yes, Mr. Chair, it will be sufficient evidence to us, until we can check and verify and accept the explanation.

MR. K. RATHOD.- We had given this schedule to the KPMG auditors too so they had reviewed 2011, because this forms part of the opening balance.

MR. CHAIRMAN.- No. 7: "The Council was not able to provide details of Accruals of \$2.416 million, including Trade, Other Payables and Sundry Deposit of \$1.4 million, as a result the audit was not able to verify the existence, completeness and accuracy of Trade and Other Payable balance of \$3.08 million and Sundry Deposits of \$1.4 million."

MR. K. RATHOD.- If you look at the next page.

MR. CHAIRMAN.- Tab seven?

MR. K. RATHOD.- This one is just on the next tab, this accrual listing exactly comes to the amount highlighted by the auditors of \$2.4 million. If you look at the last page, it comes to \$2.4 million.

MR. CHAIRMAN.- Yes, \$2.416 million.

MR. K. RATHOD.- \$2.4 as stated in that one, so this is the accrual listing. Majority of it is related to the orders which we raised which have not been paid and then there are some provision entries passed, so those two made up the \$2.4 million.

MR. CHAIRMAN.- So what does this account involve?

MR K. RATHOD.- These are accruals so any orders which we make in order to purchase but we have not paid the creditor yet, goes as accruals; when it is paid then it is reflected.

MR. CHAIRMAN.- Any questions around that? The amount is exactly the same as what is highlighted?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- It is just probably a question of not presented in a timely manner. How many staff do you have in your department, Mr. Rathod?

MR. K. RATHOD.- I have a total of 30, but they are all in different departments.

MR. CHAIRMAN.- This is the Finance Department?

MR. K. RATHOD.- Yes, the Finance Department includes the Rates Departments, Business Licence Department, Payroll Department, IT Department.

MR. CHAIRMAN.- So which Department's responsibility is to provide these things to the auditors, external auditors or Auditor-General?

MR. K. RATHOD.- No, it is Finance function but majority of the supervisors of each Department are involved in reconciliation, so we just allocate who supervises these accounts and then they are the ones who are assigned to do this reconciliation.

MR. CHAIRMAN.- So if these things are not done in a timely manner and submitted to the OAG, where does the responsibility fall?

MR. K. RATHOD.- That is what I am saying, if you really look at it from what the points stated, most of the information were there, it was just not presented at that time.

MR. CHAIRMAN.- Well, that is the main thing, if something is not done, a strap is missing, when a team loses, the coach takes the blame, so where does the responsibility lie here?

You were not there probably at that time, but the thing is that, what I am trying to point out is that, a lot of times, these things get resolved here at this stage. If he has done that a few years earlier, we will have a report that will have the introduction, conclusion and nothing else, so that is the type of situation, that means that we can concentrate on a lot of other things, areas where the real problems lie, is it not?

MR. K. RATHOD.- Correct.

MR. CHAIRMAN.- So, is it a good time to take a short adjournment for tea and then we will start with the remaining issues, the performance audit and those individual questions that we have highlighted here.

All right, Honourable Members, let us take a short 15-minutes adjournment.

The Committee adjourned at 10.49 a.m.

The Committee resumed at 11.04 am.

MR. CHAIRMAN.- Thank you very much, Honourable Members, we can now take on the remaining questions and issues and continue with the second session of today's programme.

For that, let us go to Item No. 8.

The main issue there was that the Council had a VAT Receivable balance of \$934,211 which was netted off against the Accounts Payable. This is a departure from the International Accounting Standard 1, section 32 which states that "Assets and Liabilities, Income and Expenses, shall not be offset unless required or permitted by the standard or an interpretation."

MR. K. RATHOD.- I agree with the auditors in this case since it was a receivable amount, this should have been shown under receivables and not under payable. So, it was shown under Payables and was reducing the payable amount but we take note of that.

In 2011, there was a payable situation, we had showed this under the Payables amount.

MR. CHAIRMAN.- How did that happen - human error? Or the system was somewhat

MR. K. RATHOD.- It was more like classifying, they should have classified this amount in "Receivable" but when they did their accounts, they put the whole thing under "Payables".

MR. CHAIRMAN.- So the Council pays VAT as well as receives VAT, is that right?

MR. K. RATHOD.- It will be receiving VAT where they have big expenditure, so in this case, it is a refund situation. Usually, there is a big payable situation at the beginning of the year where we do our rates invoicing but other than that, for other months, some can be receivable depending on the expenditure.

MR. CHAIRMAN.- Honourable Members, any questions around that? It was a posting error that seems to have been rectified, it is now currently done properly - posted in the right ledger.

MR. K. RATHOD.- These are receivables, we will just classify in the accounts as receivable, if payable then it will be classified as payable.

MR. CHAIRMAN.- OAG, are you all right with that, it is currently being done satisfactorily.

AUDIT REP.- Yes, Mr. Chairman, we agree with the comments. Just one more comment: there is a circumstance in which a VAT receivable can be offset with VAT payable when there is a VAT receivable and a VAT payable, both in the balance sheet, because both comes out from FRCS so in that case, the standard will allow but if there is no VAT payable then VAT receivable should be classified as VAT receivable.

MR. CHAIRMAN.- No. 9: "The Council recorded Interest on Overdue Rates totalling \$1.772 million in the General Rates Fund - Operating Statements. The details of the Interest on Overdue Rates are maintained in the Property Wise System. The audit was not able to trace Interest on Overdue Rates details from the Property Wise System to the Navision Accounting System which maintains Council accounting records.

For a start, I understand that any rates that are owing attracts a particular interest.

MR. K. RATHOD.- There is an interest of 11 percent.

MR. CHAIRMAN.- Yes, 11 percent and sometimes the Council encourages people to pay and waives those interest so reduces the interest component. What is the issue here? Is it that interest on overdue rates are not being posted properly in the system?

MR. K. RATHOD.- The issue I think was that, the interest which we charged in the revenue code, we were not able to substantiate the breakdown which are the individual ratepayers who owed interest.

There is a report available in our Property Wise System which can run a report of all the interest charged by individual ratepayer, so I think this exercise was not done at that time but there is a report which can generate that. It is just that the reconciliation at that time was not done and I think probably if you go further down, I have done a rough reconciliation of this. I think it is highlighted in some other comments which we can probably look into, it is not in that file but on another point.

MR. CHAIRMAN.- That was No. 9, any question arising around No. 9, Honourable Members?

Let us go to No. 10, "The Council did not provide payment vouchers and appropriate supporting documents totalling \$1,237,000 for the year ended 31st December 2010 for audit verification. As a result, the audit was not able to ascertain whether the expenses totalling \$19.021 million have been accurately accounted for and disclosed in the financial statements for the year ended 31st December. That is an issue where supporting documents were not provided.

MR. K. RATHOD.- All our cheques which are made by the Council go through a proper process, invoices attached have to be approved, purchase orders, cheques are printed and signed, and then when they are given then there is a dispatch - without all these, the cheque is not made.

MR. CHAIRMAN.- I am sorry, the cheque is not made?

MR. K. RATHOD.- No, the cheque is not released and when it goes to the expenditure section, they will check all these. There should be appropriate approval, appropriate invoice, et cetera. Once the cheque is dispatched or given to the vendor, then what we do we file the cheques via cheque numbers, it is kept in our treasury department which is locked.

Previously, what happened was, some vouchers were kept in the payroll department, mainly the FNPF, TPAF and some other payroll deduction cheques, and some were also taken by internal audit when they had some queries and some were used by the reconciliation officers.

So, I think these were the ones which we could not provide to the auditors, which we could not find so what we have done now, we keep a register in the Expenditure Section. Any person who wants to take a cheque has to have it signed then when he returns that, he has to sign it again, but all cheques are filed via cheque numbers and they are kept in the Expenditure Section.

MR. CHAIRMAN.- So, this amount totaling \$1.237 million, they were saying that you did not provide payment vouchers. You are saying that for every cheque, you have documents there - payment vouchers, invoices, cheque butts, tender documents, et cetera.

MR. K. RATHOD.- The cheque would not be made until it goes through all these processes so at that time, the team could not provide payment vouchers to the auditors so that is why this comment came.

MR. CHAIRMAN.- Whose responsibility was it to provide this?

MR. K. RATHOD.- I think it is Finance responsibility, SCC should provide that.

MR. CHAIRMAN.- OAG, whom do you talk to when you asked this question? Because as we were highlighting earlier, there are nine steps. You get your draft, verify it, make your comment and give it back to them, even at the seventh stage, the draft accounts are returned to them and before the exit meeting, they must relate everything. So, there are four times when you ask this question to them, who do you talk to at the Suva City Council?

OAG REP.- Thank you Mr. Chairman, there is a level of communication that we make during our audit conduct.

Initially, we communicate with the person who is solely responsible for the Account agent, for example, in this case, it is "Payment" so most probably, it would be the Payables Officer and then if we do not get what we want, then the correspondence are also copied to the higher authority which includes the Financial Accountant or the Director of Finance, but that is not the end of it.

What we also do is that, when there is a qualification in the audit report, this is also discussed together with the other issues with the management and the management's comments are being considered. So, if we look at the management comments that were provided to us, that should be coming from the highest authority, the Council.

Since the draft audit memorandum is addressed to either the CEO or the Special Administrator, we anticipate that the comments come from them because those are the people who are charged with governance and they can filter it down to the responsible officers.

So, the comment was that the Council will ensure that all payment vouchers are properly filed and kept in a secured place. Furthermore, the Council will take staff responsible to task for not performing their duties diligently, so that was the comments from the Council.

HON. A.M. RADRODRO.- Can we just get an update from the Council on the update status of those comments: was any action taken; what was the plan of the Council at that time and the actions taken, CEO?

MR. B. CHAND.- At that time, our Special Administrator was

MR. C. UMARIA.- Mr. Chair, for people who did not do their job, we have been giving warning letters to them and for some, they have been side-transferred to some other Departments, et cetera.

HON. A.M. RADRODRO.- Just a question on this amount that has been highlighted: what has actually happened to these payments that are actually paid out? The vouchers were not provided and that is what the auditors were highlighting. What happened to these multiple payments totalling \$1.2 million, were they genuine payments?

MR. K. RATHOD.- But if you look at it, it is not a private cheque, it is more to institutions like FNPF and vendors, so it is not like a cash cheque, not like that. These were all paid mainly to financial institutions.

HON. A.M. RADRODRO.- The Auditor-General had stated that even VAT would create doubt on the accuracy of the \$19 million expenditures. Why would you make those kinds of statements?

MR. D. PRASAD.- Thank you, Honourable Member, when we do the sample for the payments, what we look at, I will again emphasise that we look at the materiality of the financial statement level. So here looking at the total revenue of \$20 million, the materiality would be about \$1 million or \$500,000, so anything above that becomes a priority for us to ensure that all the appropriate records and supporting documents are available for our sighting.

So even though we know that the payments were made to certain institutions, it was not a cash cheque but we were not able to verify the accuracy of the payments, for example, even though it is a payment to FRCS, we could not verify the accuracy of the payment to FRCS, whether that amount is supposed to be paid or it should have been less or more.

So in the absence of the supporting documents, we are not able to verify the accuracy and the completeness of the payment. So when the amount is quite material which is \$1.2 million, it affects the total expenditure as well.

In another words, we are not saying that the \$19 million is incorrectly put, but we are just saying that included in that \$19 million the \$1.2 million is disclosed for which we could not sight supporting documents.

MR. CHAIRMAN.- Thank you for that part, Director-Audit. Now let us go to the general issues that had been highlighted in the Report before they get to the Special Audit.

Part 8.2 of the OAG Report has a notation that the Council recorded a surplus of \$1.796 million in 2010, compared to \$681,000 in 2009. The increase in Operating is a result of significant increase in Interest Income and decrease in User Maintenance Cost. What does that represent? The Council has got a surplus of \$1.796 million, how is that achieved?

MR. K. RATHOD.- The major components you see is the Interest Income which constitutes the majority of the increase.

MR. CHAIRMAN.- What is this interest on?

MR. K. RATHOD.- This interest is on rates.

MR. CHAIRMAN.- So the interest is accumulated on rates, that means some people were not paying it on time?

MR. K. RATHOD.- This is interest which is charged; there might be a lot of default, so that is why the interest is high.

MR. CHAIRMAN.- Put it on the book, it looks good but if it is not recovered

MR. K. RATHOD.- With the debtors situation, it becomes

MR. CHAIRMAN.- Yes, account receivables is a problem. There is a specific section in the Local Government Act where you can enforce unpaid rates through registration of charge on titles. Is the Council doing that?

MR. K. RATHOD.- Yes, we are doing that.

HON. A.M. RADRODRO.- The interest is about \$1.9 million and if you have doubtful debts of about \$1.5 million

MR. K. RATHOD.- Yes, because this interest is just the interest for the year. The one in doubtful debts is accumulated interest.

HON. A.M. RADRODRO.- So, what is the policy, at what point in time do you write-off?

MR. K. RATHOD.- It depends on the doubtful, like if we are sure that we have exercised all the avenues and the person is not paying then we can recommend to the Council that we need to write-off this or in the case of hardship, we can propose to the Council that this person is facing hardship and we need to write this off. Once it is approved in the Council, then it is forwarded to the Ministry. The final approval is to be given by the Minister of Local Government under the Local Government Act.

MR. CHAIRMAN.- (Inaudible)

MR. K. RATHOD.- For the write-off of

MR. CHAIRMAN.- What the Honourable Member is asking is that, for a debt, usually there is some time given for paying rates, I think, at the end of the year. March, April and then there is a period given for (what is called) amnesty, when people come and

MR. K. RATHOD.- Amnesty is usually done by the Ministry but usually what happens is we give a discount period on the first two months, usually around 5 percent to 7 percent discount if you pay your current rates. But the current rates is payable throughout the year so you are given time until one year to pay your current rates but the arrears you must pay, if you are not paying then it incurs interest.

MR. CHAIRMAN.- So it becomes a doubtful debt at what stage, after a year?

MR. K. RATHOD.- The policy which we have done for doubtful debt is for two systems. For Property Wise System which does the Rates, Business Licence, et cetera, we give time of one year; if it is passed that one year, then it is considered as doubtful.

For Navision debtors which is through normal invoicing, we usually give time of 120 days plus, so that is how we have determined the doubtful debts in 2011.

MR. CHAIRMAN.- Four months you have given?

HON. A.M. RADRODRO.- Mr. Chair, just on the streetlight operating costs, there is also an increase in 2010 from \$170,000 to \$527,000? Is that expenditure still currently

MR. K. RATHOD.- We do not have streetlight operating cost now because that has been shifted to Fiji Roads Authority (FRA). We used to have it before, I think, in 2012 the Fiji Roads Authority came into existence and they took all the operation for streetlights, roads.

MR. CHAIRMAN.- So the maintenance cost will now no longer be charged by Suva City Council?

MR. K. RATHOD.- No.

MR. CHAIRMAN.- I think you should take it back because during your time the lights were operating better.

MR. K. RATHOD.- Mostly, we have the drain-cleaning, street-cleaning costs. This was under the normal expenses.

HON. A.M. RADRODRO.- Administration and Operating cost?

MR. K. RATHOD.- Yes, it will probably be under Administrative and Operating cost.

MR. CHAIRMAN.- So what functions have now shifted to FRA? Streetlights, roads, street markings, sign boards, sign posts - all these have gone to FRA or still remain with you?

MR. K. RATHOD.- All with FRA.

MR. CHAIRMAN.- Streets, footpaths, pavements - all gone to FRA? Maintenance, not construction.

MR. K. RATHOD.- We still do the cleaning.

MR. CHAIRMAN.- All right, for the cleaning part, there should be some expense showing for those areas.

HON. A.M. RADRODRO.- All the administration and operations of the roads within the cities and councils, the Suva City Council collects the rates for using the roads, like parking meters?

MR. B. CHAND.- Parking meters, yes, on the delegation, what has happened, in 2014, there was an MOU signed between the Council and the Fiji Roads Authority, and they have delegated the powers on the cleaning of the streets, grass-cutting and also on the collection of revenue on parking meters, taxi stands on all public roads.

MR. CHAIRMAN.- So which section will that expense of cleaning and grass-cutting show in this statement?

MR. B. CHAND.- User Maintenance Costs.

MR. CHAIRMAN.- Note that down.

On the Abridged Statement of Financial Performance - Parking Meter Fund (Table 8.3): the issue there was that the Council's Operating Surplus decreased to \$152,000 from its Parking Meter Fund in 2010, compared to \$403,000 in 2009. The decrease in Operating Surplus was due to the decrease in parking meter collections and increase in management expenses. So that comes to Honourable Radrodro's first question, obviously the number of cars is increasing so the usual explanation should be that parking meter collection should also increase, that has decreased and at Table 8.3, we see that there is a decrease as well in parking meter collections. What is happening there?

MR. K. RATHOD.- Maybe a lot of parking meters were defective and also maybe the process was the changing of the parking meters to the new system because the old ones were getting defective and it was hard to get the parts to replace those with defects, that could have been the reason.

MR. CHAIRMAN.- So now instead of having a parking meter per parking lot, you have one meter in the middle.

MR. K. RATHOD.- Yes, anyone can use it.

MR. CHAIRMAN.- So the expense is now reduced in that regard.

HON. A.M. RADRODRO.- So the parking meters were defective but your management expense is increasing. What is the management expenses?

MR. K. RATHOD.- The management expenses also include the doubtful debts.

MR. CHAIRMAN.- Doubtful debts on parking meters?

MR. K. RATHOD.- Yes, those are classified under “management expenses”, also increasing.

MR. CHAIRMAN.- So in the “Revenue” section, we see “Fines” and Court Fees”; and “Other Income” in “Expenditure”, we see “Salaries and Wages”, is this for the parking meter attendants?

MR. K. RATHOD.- Yes, this is purely for parking meters, nothing else.

MR. CHAIRMAN.- So you have invested substantially in parking meters around the City and the revenue is dropping, so you will not have good returns on your investment?

HON. A.M. RADRODRO.- You would have done your R&D (Research and Development) process in the new parking meters, what is your intended annual collection that you intend to generate out of these new parking meters that have been installed around Suva City? Do you have any set figures?

MR. K. RATHOD.- We go through a budget process during November where we decide that these are the targets which we want to meet and then we have targets per month for parking meter collections. We are looking roughly around \$40,000 per month, and it would probably be a little bit more because I did not count

MR. CHAIRMAN.- It is not comparing between old and new meters, is it? It could be both.

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- 8.4, Abridged Statement of Financial Position - the only notation there says, “The net assets of the Council improved by \$1,544,755 or 3.4% in 2010 compared to 2009. This was due to increase in the total assets by \$1,319,547 or 2.3% in 2010” so what are some of the new assets you got? What was the reason for the increase in assets?

MR. K. RATHOD.- The major increase if you see is on receivables - \$5.4 million and that has increased to \$6.7 million, so that is where the main increase is.

MR. CHAIRMAN.- So probably your debtors are increasing.

MR. K. RATHOD.- Yes, debtors have increased.

MR. CHAIRMAN.- In terms of parking meters as well, it is noted here “Parking Meter Fund”.

MR. K. RATHOD.- Yes, because these receivables include all debtors at that time.

MR. CHAIRMAN.- All the roads are properties of Fiji Roads Authority and you have given that back to them?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- Your new balance sheet should reflect differently now.

MR. K. RATHOD.- Yes, especially in 2012, we have not actually done the main audit yet.

MR. CHAIRMAN.- May be PWC (PricewaterhouseCoopers) is looking at that. What is that Fund at Table 8.4, called Tugi Fund?

MR. K. RATHOD.- This was funding given towards road maintenance by a donor agency.

MR. CHAIRMAN.- That is no longer applicable - road maintenance is not done by the Council any more.

MR. K. RATHOD.- Yes, no more.

MR. CHAIRMAN.- 8.5, Abridged Programme Information: There are no issues arising there.

8.6, Incorrect Opening Balances: I think you have noted that, you have already answered that.

8.7, Balancing Figure in Statement of Movement in Funds: That is already being answered.

8.8, Amounts posted Manually in the Financial Statements: We have looked at that.

8.9, Cash Flow Statement: "It is essential that cash flow worksheets and reconciliations are prepared to form the basis of amounts stated in its cash flow statement. The Council did not prepare a cash flow worksheet for amounts reported in the cash flow statement.

In addition, the Council did not prepare a detailed reconciliation of operating activities." Any comments on 8.9?

MR. K. RATHOD.- This was not done at that time but if you look at the first one, it will start off as "Cash Flow Statement", 8.9: The third page is a summary of cash flow worksheet done for 2010 as shown there.

MR. CHAIRMAN.- You are doing it now?

MR. K. RATHOD.- I have done it for 2010 because it was raised as a comment so I just wanted to show that it can be done. The reconciliation to Operating in this is done here and in the accounts of the cash flow statement which I have prepared, so this is all linked with your annual P&L (Profit & Loss) and generated Trial Balance.

MR. CHAIRMAN.- So what is the current practice now, you are doing cash flow statements like this?

MR. K. RATHOD.- Yes, like this.

(Inaudible)

I think they did not know how to do it because this has to be linked with P&L items, balance sheet items, and I think OAG would understand.

MR. CHAIRMAN.- You said that they did not know how to do it, you are talking about the largest municipality of the country (Suva City), an issue of human resource?

MR. K. RATHOD.- No, it can be done manually but the proper way to do it is linking through your trial balance, I mean through your P&L and balance sheet. It has to be linked, that is what I think they did not do but you can do a normal cash flow just like that, but rightfully it should be linked.

MR. CHAIRMAN.- We have seen that, I mean it is there at least.

The next one, 8.10, Variance between amounts in Trial Balance and Financial Statements.

MR. K. RATHOD.- I think this one we have covered, it is the one we have discussed earlier.

MR. CHAIRMAN.- All right, 8.11, Cash-at-Bank: I think that is also covered; 8.12, Trade Receivables; 8.13, Rates Arrears Write-off: That is probably an area, "A Council may, in case of hardship, with the approval of the Minister, write off rates which have been levied and any interest payable thereon in respect of rateable property, payment of which rates or interest is in arrears. The Council wrote off arrears of rate amounting to \$219,876 in 2010. The Council failed to produce the approval from the Minister for Local Government to write off rates arrears amounting to \$219,876 for audit verification. Hence the audit could not ascertain whether the writing off of the rates arrears was approved by the Minister for Local Government."

MR. K. RATHOD.- I have an answer for that too. The \$219,000 was not actually write-off of any hardship.

MR. CHAIRMAN.- All right.

MR. K. RATHOD.- Under the Local Government Act, I think it is Section 80 that the Minister can write off in case of hardship. These debts include one case where we billed the property to ourselves, so there was a billing done to SCC.

MR. CHAIRMAN.- All right.

MR. K. RATHOD.- So we had reversed that.

The other write offs were a whole lot of properties which were subdivided and there was a vacant lot for which there was no owner and we were charging rates. So those were reversed, not relating to hardship and as such, the approval by the Minister of Local Government is not needed.

MR. CHAIRMAN.- All right.

MR. K. RATHOD.- I have attached the supporting details of bad debts, write offs.

MR. CHAIRMAN.- Where?

MR. K. RATHOD.- I am sorry, I did not have time to number the pages because preparing this report took quite some time.

MR. CHAIRMAN.- All right, we understand, it is a very confidential report.

MR. K. RATHOD.- But there is 8.10, Rates Arrears Write-Off.

MR. CHAIRMAN.- All right, it should be there somewhere.

MR. K. RATHOD.- Item 8.13.

MR. CHAIRMAN.- Rates Arrears Write-offs: “Please, note that the write-offs done in 2010 were not relating to cases of hardship”

All right, OAG, so the explanation is that these were not in respect of hardships, there was no explanation or approval needed from the Minister of Local Government. This was for a lot that was not given to anyone.

MR. K. RATHOD.- There was one where we billed ourselves.

MR. CHAIRMAN.- Another property where the Council was charging rates to itself.

MR. K. RATHOD.- So this was more internal, it was like incorrect billing.

MR. CHAIRMAN.- Is that explanation all right?

MR. D. PRASAD.- Thank you, Mr. Chair, we would like to obtain supporting documents and we will really visit the Local Government Act because the wordings in the Financial Statements were for write off.

MR. CHAIRMAN.- Yes.

MR. D. PRASAD.- Even though the Act does not provide distinction when the Council could do the write off.

MR. K. RATHOD.- I have seen in one of pages of the Act where it says that “upon hardship, the Minister can approve”.

MR. CHAIRMAN.- So only when there is a hardship.

MR. K. RATHOD.- Only hardship, I think it is in Section 80 of the Local Government Act, Cap 125.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- No, this is like incorrect billing that they had written it.

MR. CHAIRMAN.- In what circumstances apart from hardship can the Council write off rates; one is hardship.

MR. B. CHAND.- It is only hardship.

MR. CHAIRMAN.- If the person is dead and gone, the property is still there?

MR. B. CHAND.- Yes.

MR. CHAIRMAN.- ... but still accommodated on the property.

MR. K. RATHOD.- But still it will go down to the probate.

MR. B. CHAND.- What happens if there are rates owing on any property and the person on whose names the rates is on dies, whoever takes over that property takes over all the debts, whether it is put for sale or for inheritance, et cetera.

MR. CHAIRMAN.- All right, there is a normal legal process, the debts do not die out just because the person is dead.

In the case where you said that the Council was charging rates to itself, if the Council owns a property in the City

MR. K. RATHOD.- You cannot charge the Council.

MR. CHAIRMAN.- Yes, you cannot, so what is the procedure, like you do not pay rates or you show it in one account to the other where you do not levy rates at all on Council property, zero-rated.

(Inaudible)

MR. CHAIRMAN.- Because you will charge from somewhere, pay from somewhere.

(Inaudible)

MR. CHAIRMAN.- There is the automatic billing where the system was billing itself because it was not noted there that it is exempted.

MR. K. RATHOD.- If it is not exempt, then it will bill.

MR. CHAIRMAN.- We will move on to “Doubtful Debts”, we have seen that; “Anomalies and Property, Plant and Equipment”, we have seen that.

HON. M.M.A. DEAN.- Mr. Chair, just one question out of interest regarding this issue of charging rates on Town Council properties, so if there is a Town Council property rented out by someone, does rate apply to them or it is still zero-rated?

MR. K. RATHOD.- You mean a tenant?

HON. M.M.A. DEAN.- Tenant, yes.

MR. K. RATHOD.- The tenant will only pay the tenancy.

HON. M.M.A. DEAN.- Not the rate.

MR. K. RATHOD.- No.

MR. CHAIRMAN.- Yes, tenants do not pay rates, the owners pay rates.

MR. K. RATHOD.- The owner of the land pays rate.

MR. CHAIRMAN.- 8.20, Discrepancies in Accruals: Has that been addressed; “Continuous and regular review of the accrual balance should be carried out by the accounting staff so that the un-reconciled variance is substantiated. The Council recorded \$2,355 million as “Other Payables” in the General Ledger. The Council booked accruals totaling \$2,416 million as part of other payables in the financial statements. However, the audit noted that the Council failed to provide the detailed listings of accruals.”

MR. K. RATHOD.- This one, Sir, we had already discussed the \$2.4 million and I have given the details for what constitutes the accrual.

MR. CHAIRMAN.- All right, “8.21, No Records Provided by Council for Sundry Deposits”, has that been answered?

MR. K. RATHOD.- 8.21, for the Sundry Deposits from Tender, Library, Performance Bond - all supporting information is there, all balances to the GL account and has all the names of persons, amounts owed with receipt numbers.

MR. CHAIRMAN.- Where can that be found?

MR. B. CHAND.- 8.21, second page, I have stapled all the refundable deposit reconciliations, so it shows listing by individual name and the amount, and it matches with your GL balance.

MR. CHAIRMAN.- All right.

(Inaudible)

MR. K. RATHOD.- Yes, there are some quite old ones. Sir, this is a bit of a problematic area and says that we still have to reconcile and find out which one should be transferred to revenue, especially for tender.

MR. CHAIRMAN.- These are tender deposits?

MR. K. RATHOD.- No, there is one on tender deposit, library deposit and there are other types of deposits too.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- The unsuccessful tender is refunded and the successful one goes to revenue.

MR. CHAIRMAN.- All right, 8.22, Anomalies in Lease Liability: “The Council entered into a Finance Lease agreement with the Westpac Banking Corporation for the purchase of several vehicles. These vehicles were used by the Council in its daily operations. An unreconciled variance of \$52,983 was noted between the Council’s lease liability reconciliation and the bank’s confirmation balance.”

MR. K. RATHOD.- For this one, you can look at Page 8.22. I have attached the audit bank’s certificate for 2011 as shown.

MR. CHAIRMAN.- All right.

MR. K. RATHOD.- So just to show that in 2011, both leases were paid off.

If you look at the next page, this balance is from the banks, so the actual balance was 9.8k for one lease and 53k for another lease, so the variance was not as what was stated by the auditors. I think the issue was on the 2010 audit certificate, the amount given by the bank was not correct.

MR. CHAIRMAN.- The bank did not give the correct amount.

MR. K. RATHOD.- The bank audit certificate amount was not correct. I have attached the statement too, if you really look at this statement, it is from the bank which shows that it is paid off. In one lease here, it is stated - 52k, and in the other lease - 9k. This should be the amount stated in the bank audit certificate for 2010 but it was stated differently, so the issue was with the bank here.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- No, this is the released amount for the loan which we took for the cars.

AUDIT REP.- Mr. Chair, the bank audit confirmation is the most reliable source of audit evidence for the auditors because they sign on the confirmation. As such, the amount that we got from the bank confirmation, we took that as the correct amount. However, if the Council feels that that amount was incorrect, we would be most happy to go through their records and reconciliations, and if appropriate, we will ask the bank to reconfirm that amount for 2010, if that is possible.

MR. K. RATHOD.- But it is now paid off anyway.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- Yes, so it was stating that because of the bank confirmation, but I have attached that. The two statements you see are from the bank, both from Westpac, so their ending balance was different.

HON. A.M. RADRODRO.- (Inaudible)

MR. K. RATHOD.- So for 2011, it was stating “zero”; if we were out by \$50,000, it would have been shown here in the bank audit certificate, but it was not shown, plus we have paid the correct amount.

HON. A.M. RADRODRO.- Is it the right bank?

MR. K. RATHOD.- It is Westpac.

MR. CHAIRMAN.- The oldest bank in the country.

MR. K. RATHOD.- I have encountered that banks also make mistakes, it does not mean that everyone is perfect.

MR. CHAIRMAN.- Yes, we take that point.

8.24, Held to Maturity Investment: The Local Government Act empowers Councils, with the consent of the Minister, to invest funds under their control in stocks, bonds, debentures or other securities. The Council invested a sum of \$874,069.24 as term deposit at Merchant Finance in the year 2010. The audit noted that the Council failed to obtain approval from the Minister of Local Government to invest in Merchant Finance.

Furthermore, the audit noted a variance of \$56,755 between the interest revenue reconciliation carried out by audit and general ledger.”

So first they are saying that you have not taken approval of the Minister to invest that fund, then there is a variance in the interest component. The findings indicate that the Council did not comply with the Local Government Act in obtaining approval for investment undertaken by the Council and failed to carry out proper reconciliations. In the absence of the Local Government Minister’s consent, the short term investment is unauthorised.

MR. K. RATHOD.- We agree on the portion of approval from the Minister. Rightfully, for any term deposit which we place, we should have the Minister’s approval then we can place, so we will put it to the Council, have it approved in the Council then a letter will go to the Ministry for final approval. Once the approval is done then we can place it. So all our current term deposits are being done that way, but I tried hard to search for approval but I could not search for this one, but we are doing that for all future ones.

The issue of the \$56,000 out is because you will see that our General Ledger balance was higher than what was accounted by the auditors. In the General Ledger, since we did not accrue for the 2009 interest, that interest was also showing in the 2010 accounts, plus I think there was one term deposit to Westpac of about \$62,000, which was in the General Ledger but not in the auditor’s calculation. So this term deposit was placed in 2010 and also matured in 2010, but it is not shown in your report. This was the Westpac one, so that is why our figure is higher.

HON. A. RADRODRO.- (Inaudible)

MR. K. RATHOD.- \$115,000.

HON. A.M. RADRODRO.- ... invests its funds comparing it to the work that it does on a daily basis.

MR. K. RATHOD.- We will see if we have surplus money which we know we can cover our capital expenditure and also run our operations and we will do a cash flow and see if it is all right then we will try and invest money, at least it will earn interest. We will also negotiate with all the financial institutions and banks and then place it.

MR. CHAIRMAN.- 8.25, Interest on Overdue Rates: “The Council may charge interest on overdue accounts. The Council had a total of 11,287 ratepayers, and it is the largest municipal Council in Fiji. The interest on overdue rates is applied to all overdue rates account at 11 per cent on pro-rata basis.” I think we have discussed that amount.

MR. K. RATHOD.- We have discussed this one.

MR. CHAIRMAN.- Is this under control now?

MR. K. RATHOD.- Yes, there is a report run which shows the breakdown of interest.

MR. CHAIRMAN.- Variance in Business Licence Levy.

MR. K. RATHOD.- With regards to Variance in Business Licence levy, what the auditors were doing is, they were checking how much was billed in the debtors for business licence and then comparing that with how much was booked as revenue. There was a variance of the amount

showing but after I did the reconciliations, I found out that there were also adjustments going in the revenue code, so you cannot just only take the invoice amount and compare it to the revenue, because adjustments also go.

There are two types of adjustments: one is related to pro-rata billing where some businesses can start, not all are from January to December, some start in between so those ones you have to bill. The other adjustments are businesses which have closed down, so we have to reverse the charges for those ones, those two also affect the revenue code.

(Inaudible)

MR. K. RATHOD.- Yes, so receivables and revenue, auditors should also take into account, not only the invoicing portion but also the adjustments.

The other thing is that the revenue code is also the VIP amount as well as the receivable, so you should also take into account the VAT difference.

MR. CHAIRMAN.- Property Valuation: I think that we have looked at.

Item 8.28, Anomalies In Rates Charged: That has not been explained yet, the Council failed to prepare Unimproved Capital Value (UCV) reconciliation and noted variances in general rates, loans rates and street light rates for 2010. The street lights are out now but at that time, the Council was not taking rates on the UCV.

MR. K. RATHOD.- If you look at that page, I have done a UCV reconciliation for 2010. There is a report generated in our Property Wise System where it lists down all the properties, their property value, the UCV rate charge per property and the amount. What I have done is, this reconciliation basically takes out the value of the properties, and how much rates were charged and work backwards to what is the actual rate of the UCV and how much it is worth.

MR. CHAIRMAN.- So that has been done now?

MR. CHAIRMAN.- All right, 8.29, Poor Maintenance of Accounting Records: The audit noted several instances where payment vouchers and appropriate supporting documents

MR. K. RATHOD.- This is the one we discussed on the payment vouchers. If you look at it, the 1.2 refers only to the institutions like we highlighted. There was no cash cheque but you will see institutions like the FEA, FRCS so these are the institutions, mostly it is to FRCS.

MR. CHAIRMAN.- It says “examples of missing payment vouchers”.

MR. K. RATHOD.- Yes, that is what I am saying, we could not provide those batches to the auditors at that time.

MR. CHAIRMAN.- All right, but it is available now for the auditors?

MR. K. RATHOD.- Yes.

(Inaudible)

MR. K. RATHOD.- The Special Administrator, I think, was paid for his allowance at that time, it was not through payroll.

MR. CHAIRMAN.- Mr. Vuli Tukana, do you remember?

MR. V. TUKANA.- I cannot remember, must be per diem for overseas trip.

MR. CHAIRMAN.- All right, but the vouchers were missing.

MR. K. RATHOD.- Umaria must be paid per diem too, both would be paid per diem then.

MR. CHAIRMAN.- “The above finding indicates laxity on the part of the Director of Finance in ensuring that proper accounting records are maintained. Without payment vouchers and insufficient supporting documentation, there is a risk of items not delivered, misappropriation of funds and items purchased without immediate need.”

Item 8.30, Construction of Kiosk at Suva Bus Stand: “The review of the Project Files revealed the following anomalies;

- ✓ The due date for completion of the said works is 10 weeks from the date of execution of this agreement.

The audit noted that the agreement did not specify the date of commencement of the project, nor the completion date of the project. In the absence of an agreed timeline, Sun Maintenance Works will commence and complete the work at its own convenience and the Council would not be able to take action against Sun Maintenance Works for delays in the project.”

So there are some anomalies in the agreement.

MR. K. RATHOD.- All right, I have answered that too, it says that the audit did not specify the date of commencement of the project nor the completion, it is both there in the agreement. I have attached the agreement copies and the clauses, this is the Sun Maintenance contract.

MR. CHAIRMAN.- Tab Number, 20?

MR. K. RATHOD.- Point 6 clearly states that a due date for completion of the said works is 10 weeks from the date of execution of this agreement. The execution of the agreement was done on the 3rd of December, 2010 so the completion date is there with regards to the commencement date.

If you look at clause 65, I think it is the last clause which says that “The agreement shall become effective upon execution.” So the start date and the end date is there, I do not know why it was written that it was not there.

MR. CHAIRMAN. - OAG, in a normal legal agreement, you do not know which day it will be signed so it is 10 weeks from the date of signing, and clause 65 says that it becomes effective on the date of signing.

MR. K. RATHOD.- ... which was on the 3rd of December.

MR. CHAIRMAN.- Ten weeks from there, whether they start signing in the morning, start digging in the afternoon or sign and start digging a week later, but they have to finish within 10 weeks from signing.

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- Was that agreement provided at that time?

MR. D. PRASAD.- Thank you, Mr Chairman, as per the Council's comments then, the Council stated that the proper agreement will be drawn which will state all the relevant details to the project, however the comment from the Council is noted and if it was an oversight then we would probably re-look at that issue again.

MR. K. RATHOD.- I think the other issue raised was the Certificate of Exemption. It was noted that we were deducting payments because we did not have valid certificate of exemption. This is the copy of the valid certificate of exemption which is due on September 11th, so this was also not being checked.

MR. CHAIRMAN.- You did not give it to them?

MR. K. RATHOD.- This was there.

MR. D. PRASAD.- Yes, looking at the timeframe, because if it was there then it would have been disputed at that time when the management was providing their comments, so we are talking about an audit that was happening in 2013 and this is 2017. Probably, I cannot really doubt what they are saying but at that point, the auditors would not have sighted it, that is why the issue came up. If it was there, obviously the management would have disputed the issue, but we will be happy to look at those documents.

MR. K. RATHOD.- Yes, the file is yours.

MR. CHAIRMAN.- Civic Tower Repainting: "The Council awarded the contract to Gunac South Pacific Limited for the repainting of Civic Tower. The total contract price was \$76,000 (VIP), the work commenced on 24th November, 2010, for a period of eight weeks and was to be completed by 19th January, 2011. Review of the project files and the contract documents revealed the following anomalies:

1. The contractor shall take out public liability insurance for an amount not less than \$100,000. However, the Council failed to produce a public liability insurance policy for audit verification
2. The contractor shall take out Workers Compensation Insurance for an amount not less than \$100,000. The Council failed to provide insurance for verification
3. Contractor's bond shall be for a sum of \$7, 0000, that is 10 percent of the contract price. The audit noted that the Council failed to produce the bond documents for audit verification, hence audit cannot substantiate whether the contractor provided the bond amounting to \$7,600. Without the insurance cover, the Council's interests are not fully protected"

I see there are some insurance documents hidden down there.

MR. K. RATHOD.- Yes, for these insurance documents, they said that we failed to provide the public liability and the workers' compensation but I have already put the workers' liability and the workers' compensation in the file for you to sight. With regards to the bond amount, what we do though we do not take the bond, we have a retention policy so 10 percent of every work they do is held back as retention.

So whenever we make payments to the contractor, we withhold 10 percent, so it is like a bond and then the bond is paid after the completion of the project. I think it is when the defect liability period ends.

This is a schedule I have done on the last page which shows all the payments done by the contractor and the last payment paid was for the retention amount. Though we did not take the bond, but we are taking a retention amount, so that in a way is safeguarding us too.

MR. CHAIRMAN.- So it was there, it is just the question of when it was given.

Item 8.32, Repair and Painting of the Suva Olympic Pool.

MR. D. PRASAD.- Thank you, Mr. Chairman, our issue was that the audit noted that the Council failed to produce the bond documents so we are not actually saying that there was no bond document. It is just that we were not being produced with those bond documents.

We still have to sight those. We will appreciate if a copy of the file is also given to us.

MR. CHAIRMAN.- All right, Painting of the Suva Olympic Pool: The Council awarded the contract again to Gunac South Pacific Limited.

A formal contract for the supply of the stores and services should be entered with the supplier. Numerous issues are highlighted there.

MR. K. RATHOD.- All right, I think in this one too, the issue of bond is there so we also took retention amount for this one. Also in the case of Public Liability, I have put the public liability documents there.

MR. CHAIRMAN.- For this particular project?

MR. K. RATHOD.- Yes, it is there.

MR. CHAIRMAN.- Refurbishment of the Suva Civic Centre: Similar issues?

MR. K. RATHOD.- Yes, similar issues, there were some different issues highlighted in the Civic Centre. The deposit of the tender amount was incorrect but actually the deposit was correct. If you look at the pages

MR. CHAIRMAN.- They are talking about tender deposits?

MR. K. RATHOD.- This is about the Suva Civic Centre. There was a comment by the auditors on page 26 that a sum of \$1000 should be paid as tender deposit, and Gunac only paid \$200.

If you look at my folder, they had paid \$200 then they paid another cheque of \$800, so it was correct, so they paid and I have attached the receipts for the Committee to sight.

On the issue of Ram's Maintenance, they paid only \$200, note that they were disqualified and we had put a comment there "not accepted" as the depositor should be \$1,000, and only \$200 attached, so it was not accepted.

MR. CHAIRMAN.- So these two companies or entities (Ram's Maintenance and Gunac) both paid \$200?

MR. K. RATHOD.- No, but the issue was, Gunac paid \$200 but then paid \$800 again.

MR. CHAIRMAN.- Yes, but why?

MR. K. RATHOD.- They were a bit confused. They thought initially that they paid only \$200. I have attached the letter from Gunac for you to see where they are stating that they did not know that it was \$1000, then they paid \$800 again.

MR. CHAIRMAN.- In the advertisement, you had not put the amount of \$200.

MR. K. RATHOD.- I beg your pardon?

MR. CHAIRMAN.- In the advertisement

MR. K. RATHOD.- In this tender, the tender deposit was \$1,000, not \$200. Usually, we charge \$200.

MR. CHAIRMAN.- All right, it is usually \$200?

MR. K. RATHOD.- It is \$200, so I think he got confused and he only paid \$200 then he later realized then he made another cheque of \$800.

MR. CHAIRMAN.- Why I am asking is because probably Ram's Maintenance had missed out

MR. K. RATHOD.- No, Ram's Maintenance genuinely paid \$200, we did not accept their tender. I have attached the signed form where the management had signed and said that it is not accepted.

MR. CHAIRMAN.- Was Ram's Maintenance told that it is not \$200, but it is \$1,000; did they know about that?

MR. K. RATHOD.- I think Gunac knew it before

MR. L. TUKANA.- I think they knew it before the tender closed, so they had settled that \$1,000 payment before the close of tender.

MR. CHAIRMAN.- All right, but Ram's Maintenance did not know about that?

MR. B. CHAND.- Maybe he was not present when the tender closed.

MR. CHAIRMAN.- What I am asking is, probably it is a question of fairness and the invitation to treat must reflect the tender amount payable. A lot of people would have probably missed out because they paid \$200 instead of \$1,000.

OAG, the advertisements in this kind of situations, should the advertisement on the invitation to treat include the tender deposit amount, usually it does?

MR. J. RAM.- It is always mentioned in the advertisement.

MR. CHAIRMAN.- In this one, it was not mentioned?

MR. J. RAM.- It was mentioned.

MR. K. RATHOD.- I have actually put the advertisement also in there, which says here clearly, "\$1,000."

MR. CHAIRMAN.- Where? Tab number?

MR. K. RATHOD.- It is in that page (a bit dark page), so I have included the advertisement for the Committee to see. Yes, that is the one, it is a bit dark, "the sum of \$1,000 shall be paid as tender deposit", this is the actual advertisement that went out.

MR. CHAIRMAN.- Yes, probably it is the dark copy that went to Ram's Maintenance as well, that is why they did not see it.

MR. V. TUKANA.- But that was advertised in the *dailies*.

MR. CHAIRMAN.- All right, no issues there.

MR. K. RATHOD.- As for the insurance, I have already allocated the insurance covers for the Committee to see and the retention amount is still the same, we are retaining

MR. CHAIRMAN.- The policy is there as well?

MR. K. RATHOD.- Yes.

MR. CHAIRMAN.- The next one, 8.34: "Tender not Called for Contracts Exceeding \$10,000: "A tender must be called for the procurement of goods, services or works valued at \$10,001 and more. The Council engaged several contractors for providing goods and services valued more than \$10,001 without calling for tenders. This Ultramax 45 Robotic Vacuum Cleaner (Metco Industrial Ltd), \$24,600; and Internet Service Provider, Kidanet is \$28,358.78.

MR. K. RATHOD.- For Metco (\$24,600), I have attached the documents, this was for the purchase of the Olympic Pool vacuum cleaner. What happened was, this project was quite an urgent project though it was also raised in the committee meeting, and I think at that time the Special Administrator said that this should go as tender but then it was agreed in that meeting (I have also attached the Minutes of that meeting) that this will go through and approved like a flying minute. So, I have attached the flying minute approval.

MR. CHAIRMAN.- Is that the only company that supplies robotic vacuum cleaners?

MR. V. TUKANA.- That is a specialized underwater vacuum cleaner so we have to source it from overseas.

MR. CHAIRMAN.- All right, so it was not necessary to call tenders at that stage?

MR. K. RATHOD.- We did not call for tenders but we called for quotes. There were about seven people whom we got quotes from, out of which, I think, only five responded.

MR. CHAIRMAN.- So, are the quotes attached here?

MR. K. RATHOD.- The quotes are not attached but we have stated that in the letter.

MR. CHAIRMAN.- All right, it should be mentioned because the flying minutes or minutes, et cetera, do not fix the problem if something is to be tendered, if it is not tendered, then probably the next best thing is to call for quotes, at least there will be something.

MR. K. RATHOD.- (Inaudible)

MR. CHAIRMAN.- All right, minutes and flying minutes, et cetera, on their own do not help much because then it will be a question of the political intention of the Council at that time.

We now move on to Garbage and Refuse Collection, Grass-Cutting and Drain-Cleaning.

HON. A.M. RADRODRO.- Just a question on this vacuum cleaner: I think, this is a highly technical vacuum cleaner; what is the status of the vacuum cleaner now, is it still operating?

MR. K. RATHOD.- (Inaudible)

HON. A.M. RADRODRO.- Do you have the supporting services that come with the vacuum cleaner, especially when you buy it from overseas, what about the support services?

MR. K. RATHOD.- (Inaudible)

MR. CHAIRMAN.- 8.35, Garbage and Refuse Collection, Grass-Cutting and Drain-Cleaning - "The Council awarded the contracts for collecting refuse and garbage, grass-cutting and drain-cleaning to various contractors in various sectors subject to the stipulated requirements and signing of the contract Agreement. These Contractors were Raven's Contractors, Nadave Transport, Namadai Methodist Church and Raiwai Grantham Reform. Review of the project file and the contract document revealed the following anomalies.

- ✓ A formal contract for the supply of their stores or service should be entered with the supplier who was successful and entered in the contract register. Contrary to the above requirement, the Council failed to establish contractual agreements with these vendors for collecting refuse and garbage."

So what this basically means is that when the tenders were awarded, you did not have any agreement done with them?

MR. B. CHAND.- Yes, Mr. Chairman, the situation here was when these tenders were called and awarded, thereafter we came to know that there was a new entity to be established, the Fiji Roads Authority. So, normally our agreements are for a period of three years so what we saw, if you sign the agreement, we will be caught in between after the transfer takes place.

So on the 5th of January 2012, the entity (Fiji Roads Authority) was formed and all our assets - roads, street lights, drains, road reserve, footpath, et cetera, were transferred or vested with the Fiji Roads Authority, had we signed it we would have been caught in between.

MR. CHAIRMAN.- You would have been lumbered with that problem of paying them without doing the work.

MR. B. CHAND.- Yes, or liability and other issues would have come up.

MR. CHAIRMAN.- So what happened to Raven's Contractors?

MR. B. CHAND.- We continued with these contractors on a month to month basis. The Fiji Roads Authority, in consultation with us, we signed an MOU with the Council.

The last agreement was signed on the 16th of January 2014 whereby the Fiji Roads Authority delegated the powers of responsibility on cleaning and maintenance of these streets, grass-cutting, rubbish-collection from there to the Suva City Council. Following which, in 2014 we called for fresh tenders. After which in 2015, we entered into contract agreements with the new contractors.

MR. CHAIRMAN.- Some of these companies are still there or disappeared? The issue there was that, because the function was transferred to FRA, that is why there was no need for the contract and when the works were assigned to the Suva City Council, the contract was signed.

MR. B. CHAND.- Yes.

MR. CHAIRMAN.- That should suffice.

MR. B. CHAND.- What they mean here, "Garbage and Refuse", this garbage was meant as green waste collection.

HON. A.M. RADRODRO.- Contractor's engagement: does the Council conduct regular review of what they do?

MR. B. CHAND.- Yes, it is done on a daily basis. We have five overseers who check in each ward on a daily basis on their work programme. We have work programmes given out to them that say, "These are the works to be done on this day, grass-cutting, et cetera, scheduled for the month". Also stated would be the areas to be cut which are all monitored on a daily basis. If the work is not done, a notice is given to the contractors. If they fail to comply at the end of the month when we do the payment, we deduct penalties.

MR. CHAIRMAN.- Whose responsibility is the suspension part - the Council or FRA?

MR. B. CHAND.- The Council does all that.

MR. CHAIRMAN.- Exactly what are all those duties that the Council do, like rubbish-collection, grass-cutting?

MR. B. CHAND.- Normally, we do street-sweeping, drain-cleaning, grass-cutting, removal of litter bins; these are all the delegated functions that we do for Fiji Roads Authority.

MR. CHAIRMAN.- Delegated back to Fiji Roads Authority?

MR. B. CHAND.- Yes, also all underground drains along the streets and the gully pits. As far as green waste is concerned, that is the Council's responsibility, coming from private premises.

MR. CHAIRMAN.- All the yard trimmings, et cetera?

MR. B. CHAND.- Yes, those are the Council's responsibilities.

MR. CHAIRMAN.- Not FRA's, straight yours?

MR. B. CHAND.- Yes.

MR. CHAIRMAN.- 8.36, Purchase Order issued after Procurement of Goods and Services: "There were several instances where purchase orders were issued after repairs and maintenance were carried out by Southern Electric Limited. The audit also noted that purchase orders were issued by the Council to regularise the procurement process and make payments to Southern Electric Limited."

The usual procedure is that, purchase orders are issued, the work is done and then payments are made but in the particular situation here, it seems that the purchase orders were not issued, it was issued later just to regularise. Is there any explanation on that?

MR. K. RATHOD.- The issue for raising LPO after is because we cannot predict how many street lights will require maintenance. After they have done the work then they can tell us. We have a fixed rate per street light as per contract but we do not know the quantity of the work, so they will do the work and then send us the invoice. It is just for this contractor that we are doing that.

MR. CHAIRMAN.- It is only for this contractor.

MR. K. RATHOD.- Only for this contractor because the nature of the work is such that we cannot issue a purchase order upfront because we do not know how much work is done. In case of a cyclone, et cetera, and there is more damage, we cannot predict until they do their work and submit that to us.

MR. CHAIRMAN.- So what work is involved here - putting up new street lights or just changing the bulbs?

MR. B. CHAND.- Sir, what actually happens when street lights go off, that show defects, so what happens, the ratepayers start demanding service like, "I want this fixed as soon as possible (asap)" otherwise thieves would come in, no lighting, et cetera. We have an electrical overseer who goes, checks and refers this to the contractor to have these fixed. The monitoring is done and the contractor carries out the repair works, and the overseer checks it. At the end, the contractor bills the Council and then we raise the order and pay it off because of the urgency of things that ratepayers demand, they do not want to wait.

MR. CHAIRMAN.- It will be impractical to issue tenders for just one street light.

MR. B. CHAND.- The tender is already issued, the agreement is signed. The only issue is, how many street lights will be used? We cannot predict whether 10 or 50 street lights will be used

this month. It depends on which one is going to be used because we do not know the life of the bulb, et cetera.

MR. CHAIRMAN.- The overseer is supposed to be an honest person and he should be signing off actually

MR. B. CHAND.- That was how it was, once he signed off, we raise the LPO and make the payment. This is the issue they are raising that the invoice comes and then the LPO is raised.

MR. CHAIRMAN.- That problem is not FRA's, is that right?

MR. B. CHAND.- No, it is FRA's and you know the type of service you are getting now.

(Laughter)

MR. CHAIRMAN.- Honourable Members, those were all the questions on the Audit Report. Now the special audit, Honourable Radrodro, would you like to lead the questions there? That is your area - special audit.

HON. A.M. RADRODRO.- (Inaudible)

MR. CHAIRMAN.- Yes, if OAG can brief us on the special audit then we will go to the Council.

MS. U. NAMOSITAVA.- Thank you, Mr. Chair, this was a performance audit that was done on the contractual engagements by municipal councils. The background for these areas is provided for in Section 2 of our Audit Report.

Municipal Councils provide essential services to the ratepayers, and because of the limited resources they have, they often engage contractors to carry out the provision of the upkeep of these public utilities. So this performance audit was undertaken because arising from our financial audit, there were issues that were raised with regards to contract engagements by municipal councils.

So Section 3 of the Report provides for the objective of conducting this audit which was to determine the effectiveness of municipal councils in managing contracts of services by examining three areas of contract, like we looked at the policy framework governing contractual engagements, the key elements for the contracts that were being undertaken and managing contractors' performances. We only focused on the contractual engagement across municipal councils and we looked at seven municipal councils, obviously, the Suva City Council is one of them.

MR. CHAIRMAN.- That is from Special Audit, what are some of the important aspects?

HON. A.M. RADRODRO.- Basically, across all the councils on Page 13, "No evidence to indicate that risk management has been addressed in detail, in all activities relating to contract of services. The effective management of risks attached to contractual activities have been potential to save the Council's considerable moneys as well as ensuring the Councils are deriving maximum return for moneys vested in contractual terms."

These are findings made by the OAG on this particular audit issue on contracts. I think there is evidence in what we have just been through, so whether the Council still agrees as per the Auditor-General's comments - "The Auditor-General's comments were noted that the Council is

generally in compliance” on this particular contractual audit contract. Has that been improved in terms of work that has been done and whether the Auditor-General has done a follow-up audit to check whether there is improvement in this exercise?

MR. K. RATHOD.- Yes, thank you for that comment. What actually happened in the previous contracts which were very conventionally done, in the absence of any guideline issued by the Government or Ministry at that time, we are relying on the risk mitigation which was sort of embedded in the contract itself. There was no separate risk policy taken out but it was embedded in the contract in the form of Performance bond, Public liability and Workmen’s compensation where all the contractors were to be brought up-front, which they did. But now where the OAG is coming from, because of the substantial risk, they want it to be managed separately.

So, going forward, we worked out a policy to align ourselves into managing risk separately but you will see that this is a service contract. There is no real loss of revenue, no financial loss for the Council because it is a service contract which the CEO has said is sort of monitored on a daily basis. So, at the end of the month the payment is made. So, we have already deducted the provision where the work is not done. So, like there is no real loss to the funds in the Council but the Council has back-up plans where the work is not done just to complete it. So, it is basically about service contract we are talking about, and on top of that, the Council has about a million dollar coverage of public liability because we are a public entity. So, that sort of covers our liability risk but going forward, we will try to manage separately within the contract.

HON. A.M. RADRODRO.- How do you ensure that the contractors do not also carry the same public liability as you do?

MR. K. RATHOD.- They submit the current policies to us in that tender, we assess it, only then can we award the contract - the valid ones.

HON. A.M. RADRODRO.- Page 17: 5.0 Key Elements of Contractual Engagements, Human Resources Involvement in contractual works, Technical expertise in the identification of contracted works, how has the Council addressed that particular area?

MR. K. RATHOD.- As I have said, this was sort of a relatively new area in the risk management but as we go along, we have to train and up-skill our staff as well in these areas. So, this appears on paper, when the paper is submitted, we ensure that things are complied with but training and up-skilling staff capacity development is an on-going process.

HON. A.M. RADRODRO.- Big projects like currently the Albert Park and the Pool, how has the Council addressed these particular areas in terms of engaging technical expertise as a way forward?

MR. V. TUKANA.- The projects like Albert Park, we do engage independent specialist consultants for major projects like Albert Park. All these major projects are under a 12-year defect liability period, so any defects within that period is covered in the contract, so it is a 12-months defect liability period.

MR. B. CHAND.- The good part, Mr. Chairman, is that now for all these contracts, once the evaluation is done, they are forwarded to the Ministry of Local Government who has a final say on them, also in reference to the Solicitor-General’s Office who would have come up with the final version of the contract which would very well cover both parties’ interests, so that is in place and the improvement going forward now.

MR. CHAIRMAN.- So, you say that the contract part is given to the Ministry of Local Government?

MR. B. CHAND.- No.

MR. D. PRASAD.- The contract agreements are now being vetted by the Attorney-General's Office before sign-off.

MR. CHAIRMAN.- All right, what about the tender process, when the tenders are opened and awarded, is the Ministry also part of that or only the Council?

MR. B. CHAND.- Yes, the final approval for all award of tenders is made by the Ministry then the offer letters are given by the Council to the tenderers.

MR. CHAIRMAN.- All right.

MR. B. CHAND.- That is our process to show transparency and accountability.

MR. CHAIRMAN.- All right, so currently that is the practice.

MR. B. CHAND.- That is the practice from 2016.

MR. CHAIRMAN.- So what was happening before that?

MR. B. CHAND.- It was sort of in-house.

MR. CHAIRMAN.- Any specific questions, Honourable Members, in that regard?

HON. A.M. RADRODRO.- (Inaudible)

MR. B. CHAND.- Yes, Sir, as far as the FRA delegated work is concerned, the FRA also comes in and checks our work on the payments. If they have issues they will always raise that so there is a checking system by both SCC and FRA.

HON. A.M. RADRODRO.- For garbage collection, at most times you see when garbage has been collected, there is always spills-over on the roads. How does the Council look into addressing that, especially the garbage that are kept in plastics and the stray dogs come and bust the plastic and spill the garbage all over the place?

MR. B. CHAND.- The garbage collection is in-house and done by the Council workers. We have six garbage trucks operating on a daily basis, from Monday to Saturday; and CBDs (Central Business Districts) are done on Sundays as well.

We have a big challenge with the stray dog population so this is where the problem of scattered garbage done by stray dogs. We have been working with the Ministry of Agriculture and also SPCA where we are setting traps to cage these dogs and what happens, we cannot do dog poisoning because there has been strong objection from SPCA and also the ratepayers.

The last one we did was in 1999 and there was big uproar where some of the councillors were almost punched in the Council Chambers by the ratepayers, so following that we have stopped

all the dog poisoning because it is inhumane and there is a strong objection locally and internationally as well, as you know on animal welfare.

MR. CHAIRMAN.- Right, that is a good humane way of dealing with it.

MR. B. CHAND.- So, recently we have been working with the Assistant Minister for Local Government, Honourable Lorna Eden, and we have been meeting with the Ministry of Agriculture and other stakeholders to see the way forward in reducing these stray dog population.

MR. CHAIRMAN.- Is that an issue of the special projects or there is a tender?

MR. B. CHAND.- Apart from that, we are now enforcing the use of garbage bins by residents. A lot of them want to use supermarket bags, et cetera. We know the issue of this socio-economic problem, people cannot afford bins and we also have some issues from our side where our workers also damaged some of the bins and we had also attended to complaints, replaced those bins and surcharged our workers.

So, this is a challenging area that we are facing now and given that garbage collection is an essential service, our workers are working on task basis where they try and complete the garbage collection as soon as possible because of health issues associated with this, like appropriate footwear, et cetera. You will notice that our workers start work at 7.00 o'clock in the morning.

The first thing they do, they come and clear out all the CBD (Central Business District) areas because we do not want to see rubbish in the CBD when we come to start work.

MR. CHAIRMAN.- Yes.

MR. B. CHAND.- So, garbage collection is a big challenge for us but we are trying to manage and improve as much as we can, thank you.

MR. CHAIRMAN.- On Page 21, you will see the tender policy. Some municipalities like Lami, Nausori and Ba apply the lowest tender criteria. Lowest value tender is not usually the best thing to do because sometimes people under-cut just to get the tender and then they do work that is called "five-eighth" job in the village.

MR. B. CHAND.- Sub-standard.

MR. CHAIRMAN.- Yes, sub-standard, but Suva uses criteria that are quite limited and do not extend to include evaluation of suppliers. What sort of processes does the Suva City Council apply in terms of owning tenders? Is it the lowest tender or reputable providers?

MR. B. CHAND.- We look at companies that are reputable. In terms of maintenance contract which is to do with grass-cutting, et cetera, we have a points system where we also look at their experience, financial health because these are two important components that will carry them through.

MR. CHAIRMAN.- Previous records as well.

MR. B. CHAND.- Yes, previous records, Workmen's compensation, liability issues and OHS.

MR. CHAIRMAN.- But at that time in 2010, they were saying that there be no scaling and points allocation to each criteria. They were not using the points system.

MR. B. CHAND.- We were using the points system but I do not know how they have written but we are using points. In 2010, we used the points criteria.

MR. CHAIRMAN.- OAG, what is the meaning of what is on Page 21 at Table 5.4 (bottom of second row, third column) - "No scaling and points allocation to each criterion."

They are saying that they were using it. I mean I see some sense in that because if you keep on awarding to the lowest bidder, it probably might not get the best service, so there has to be a points system. They have explained things there like previous record, whether they have sound financial background, et cetera.

MR. V. TUKANA.- Thank you, Mr. Chair, the scaling points system we are talking about, yes, there are some percentage of points allocated for each that are not mentioned anywhere in the contract we went through. I think there was no points system for each of those like experience, past record, financial status, so there was no points' allocation for each of those, I think.

MR. B. CHAND.- That is when the tender is evaluated.

MR. N. NARAYAN.- For evaluation, we do it.

MR. N. NARAYAN.- There is a check list.

MR. B. CHAND.- In fact, those who came to audit from the OAG said that we have the best tender awarding policy, and I am surprised to hear this.

MR. K. RATHOD.- We will get back to you on that but since the tender process manual was done in 1992, we were trying to implement the best practice with the FPO (Fiji's Procurement Office), I think that is where we are coming from, scaling points were allocated.

MR. CHAIRMAN.- The point being that if the Council is doing something right they should be encouraged. If it is picked up and said that they are not doing it right, probably they will change the system which is already working fine so the responsibility lies back on your Office. If there is something wrong, there is no problem pointing that out. We would like to know that, but if something is working fine then, please, put that in as well that from 2010, they had a points system.

If it is not a working solution, if it does not work properly then we can all get back and see if we can find a better way. The internal audit teams do that if something is not working fine. Honourable Members, any questions around that area?

HON. A.M. RADRODRO.- (Inaudible)

MR. CHAIRMAN.- Page No.?

HON. A.M. RADRODRO.- (Inaudible)

MR. CHAIRMAN.- "Suva City Council is not appropriately divided up into different sections."

HON. A.M. RADRODRO.- (Inaudible)

MR. B. CHANDRA.- Our contract has termination clause, everything is there. If they want, I can bring the contract document.

(Inaudible)

MR. B. CHANDRA.- Then we forward it to the Ministry and the Ministry forwards it to the Solicitor-General's Office for final vetting and then the signing off takes place.

MR. CHAIRMAN.- OAG, is that in respect to one or two contracts only, or is it a general comment because they are saying that it is done.

OAG REP.- (Inaudible)

MR. CHAIRMAN.- In 2010, it was not being done that way - in-house.

MR. D. PRASAD.- It was in-house.

MR. CHAIRMAN.- But the contract still had the termination clause, et cetera.

MR. B. CHAND.- Yes.

MR. CHAIRMAN.- That is quite pretty general, it is just a cut-and-paste thing where no one removes those clauses.

MR. B. CHAND.- That is why I had mentioned "contract" in the beginning.

HON. M.M.A. DEAN.- So the Council is agreeing on other comments with OAG?

(Inaudible)

MR. CHAIRMAN.- I mean it is better to address this specifically because they cannot make a general comment.

HON. M.M.A. DEAN.- Yes, because the comment that is coming from the Office of the Auditor-General is quite stringent, and that reflects a lot of loopholes in terms of the contractual agreements relevant to SCC.

According to SCC, even their tender policies at that time were quite relevant and probably reflected the best of conditions. They are generally saying "No", so from the perception of the Public Accounts Committee, how are we going to resolve this? Are you going to liaise with each other in regards to these comments and provide further feedbacks or we just take the comments as it is? So perhaps I think there should be more liaisons between SCC and OAG and probably you can get back to us so that when we make the report, we make it as fairly as possible, taking into consideration the professional opinions of both.

MR. CHAIRMAN.- No, I think it will be on a case by case basis.

HON. M.M.A. DEAN.- Case by case, yes.

MR. CHAIRMAN.- They have raised that there was something missing but they are saying that it is there, they should be reconciled because it will be unfair on the Council if you say that their document has something missing when it is there and the report that we write will not be accurate in that as well.

HON. M.M.A. DEAN.- Yes, we want to make a very fair report.

HON. A.M. RADRODRO.- On Page 31, “However, the contractor did not complete the work and the Council had to complete the project”

MR. B. CHAND.- All our payments are made in compliance with the agreement. If they do not do the work we deduct penalty.

HON. A.M. RADRODRO.- The OAG Report states “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:

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

MR. B. CHAND.- In case of our contractors, we have a performance bond of 2.5 percent of the contract price and all our contractors have a performance bond held with us, either in cash or they give a bank guarantee. So, there are two options they can take: either they pay us a cash bond as a performance bond; or they give us a bank guarantee in favour of Suva City Council.

HON. A.M. RADRODRO.- That was funded by the Japanese Embassy?

MR. B. CHAND.-Yes.

HON. A.M. RADRODRO.- All right.

HON. M.M.A DEAN.- The 2.5 percent bond amount, was it the condition prior to 2010 as well?

MR. B. CHAND.- Yes.

HON. M.M.A DEAN.- All right.

MR. B. CHAND.- The performance bond is only released if the contract is terminated. If they do not want to renew their contract, then we release their bond or we award that to someone else. If there is no successful bidder, we refund.

MR. V. TUKANA.- That means it did not qualify.

MR. CHAIRMAN.- If the job is not done to standard, as in many instances, have you called on the performance bond?

MR. B. CHAND.- We had one case in Raiwai, Raiwaqa where we terminated and that bond money was forfeited.

MR. CHAIRMAN.- All right, on Page 33 it is noted that “The Suva City Council should:

i) improve its tender evaluation criteria and include other factors such as experience of the contractor, contractor's capability and capacity and past performances and 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.]*".

I understand that you are already doing that in terms of 2010. All these things were being done but they are still saying that the things that are experienced, the contractor should also be taken into account.

"ii) ensure that its contractual agreements are properly divided into sections with proper headings."

MR. B. CHAND.- This contract was not our contract, it was from JICA.

MR. CHAIRMAN.- All right.

MR. B. CHAND.- It is funded by JICA, it is not Council money.

MR. CHAIRMAN.- It is a separate one.

MR. B. CHAND.- It is not Council funds.

MR. V. TUKANA.- We did not have much input in this.

MR. CHAIRMAN.- All right, so there is no power with you to

MR. B. CHAND.- No, it was a donor agency.

MR. CHAIRMAN.- This particular one?

MR. B. CHAND.- Yes.

MR. CHAIRMAN.- OAG, you note that point that this one we cannot attribute this to the Council because the donor agency was responsible, their money and their contract.

HON. M.M.A. DEAN.- But, Mr. Chair, the question here is: why are these anomalies being reflected

MR. CHAIRMAN.- Yes, why does it appear in the report when it is not

HON. M.M.A. DEAN.- ... for Suva City Council when it was something that was a condition of the donor agency?

MR. CHAIRMAN.- Did you tell the OAG at that time that it is not your contract, it is JICA's?

(Inaudible)

HON. M.M.A. DEAN.- By the donor, yes.

(Inaudible)

HON. M.M.A. DEAN.- Their contractual agreements are more fine-tuned, I believe.

MR. N. NARAYAN.- It was very basic.

HON. M.M.A. DEAN.- It was very basic, so OAG, why are the anomalies being reflected on them, why not JICA, because if the public is reading this, they will assume that SCC was not following contractual procedures, et cetera? You are reflecting this to SCC or JICA?

MR. N. NARAYAN.- (Inaudible)

MR. CHAIRMAN.- All right, so we take that point.

HON. M.M.A. DEAN.- So you become accountable.

MR. J. RAM.- I think we can note that there was an advance payment of \$7,920 made to them.

MR. N. NARAYAN.- The JICA funds.

MR. K. RATHOD.- Yes, but it was through the Council.

MR. B. CHAND.- That was the agreement by JICA, so we had to follow that.

MR. CHAIRMAN.- So you were dispersing the funds according to their agreement entertained too by JICA.

MR. B. CHAND.- JICA was giving to us then we were giving it to the contractor, then the contractor in between those clients.

MR. CHAIRMAN.- So whose responsibility was for inspection and evaluation?

MR. N. NARAYAN.- The Council's.

MR. V. TUKANA.- (Inaudible)

MR. CHAIRMAN.- All right, so did JICA know about the contractor that they have engaged, that they were not doing it right?

MR. N. NARAYAN.- Yes.

MR. CHAIRMAN.- But the funds were still dispersed from the JICA fund.

MR. N. NARAYAN.- Yes.

MR. CHAIRMAN.- No, they did not do it, they get the contractor in-house to do it. Any other questions in that regard?

HON. M.M.A. DEAN.- I think, Mr. Chairman, we might request more specific details on contractual agreements, especially in relation to specific projects just for our report writing.

MR. CHAIRMAN.- Yes, there are certain things in there as well like Page 45, 6.5, Managing Complaints on Contractors Work: they are saying that for Suva City Council, “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”. So when ratepayers raise issues that some of the contractors are not doing their job according to the best practice, do you send notice to the contractor after you do your own inspection?

(Inaudible)

AUDIT REP.- That is in the audit agreement?

SCC REP.- Yes.

MR. CHAIRMAN.- Honourable Members, I think those were all the questions from the Performance Audit we had. What we will do is that we will screen their performance audit again and if there is something that is not answered, we will send you written questions via e-mail, probably that will become easier for us to put in the report. Otherwise, are there any final questions?

We have completed the audit findings, and I am grateful to the SCC and the Director of Finance for the comprehensive response. In fact, I was wondering if that has been submitted to the OAG in the first place, probably this meeting would not have been necessary, it is all there, so we will review that and if there is anything that is missing, we will definitely be in contact with you.

With that, on behalf of my Members of the Public Accounts Committee, I thank the Suva City Council, headed by Mr. Bijay Chand - Acting CEO; Mr. Chandu Umaria - Special Administrator; Mr. Vuli Tukana, Director - Engineering; Mr. Kavin Rathod, Director - Finance and Mr. Naresh Narayan - Director, Health; for your attendance this morning before the Committee, and for your thorough responses.

You have certainly helped the Committee in its reporting procedure and we will be compiling our report on your submissions and present it to Parliament on a particular date in the future.

Any final comments from any of the members from SCC before we close this session?

MR. B. CHAND.- We are grateful and thankful for this meeting here today and we have noted and taken into account our strength and weaknesses and we will improve on them and also strengthen on the strength that we have, ensuring that the next audit report will have much lesser queries and moving forward, improving as much as possible.

MR. K. RATHOD.- 2011 only has 16 issues compared to 38.

MR. CHAIRMAN.- All right, that is a good sign, thank you very much.

In fact, I was telling my Members that I hope for the day when we just open the OAG Report and there as “Introduction”, just some nice pictures and “Conclusion”, no audit issues, because that will show a perfect society, in another 10 years.

Thank you very much once again.

Honourable Members, we will now adjourn until 9.00 a.m. tomorrow.

The Committee adjourned at 12.53 p.m.

PUBLIC ACCOUNTS COMMITTEE

Submittee: Suva City Council (SCC)

[Verbatim Report of Meeting]

HELD IN THE

COMMITTEE ROOM (WEST WING)

ON

TUESDAY, 24TH OCTOBER, 2017

