

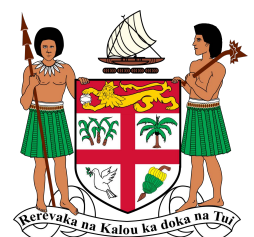


OFFICE of the AUDITOR GENERAL
Republic of Fiji

REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI

AUDIT REPORTS ON:

1. MANAGEMENT OF DUTY CONCESSION SCHEME
2. MANAGEMENT OF PRISONERS, EMPLOYEES, AND ASSETS MANAGEMENT SYSTEM



PARLIAMENT OF FIJI
PARLIAMENTARY PAPER NO. 96 OF 2018

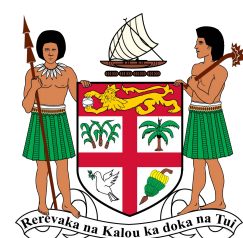


OFFICE *of the* AUDITOR GENERAL
Republic of Fiji

EXCELLENCE IN PUBLIC SECTOR AUDITING

REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI

- 1. MANAGEMENT OF DUTY CONCESSION SCHEME**
- 2. MANAGEMENT OF PRISONERS, EMPLOYEES, AND ASSETS
MANAGEMENT SYSTEM**





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Republic of Fiji

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File: 102

25 May 2018

The Honorable Dr. Jiko Luveni
Speaker of the Parliament of the Republic of Fiji
Parliament Complex
Gladstone Road
SUVA

Dear Madam

AUDITOR-GENERAL'S REPORT ON PERFORMANCE AUDIT

In accordance with section 152 (13) of the Constitution of the Republic of Fiji, I am pleased to transmit to you my report on Performance Audits.

A copy of the report has been submitted to the Minister of Economy who as required under section 152 (14) of the Constitution will lay the report before Parliament within 30 days of receipt, or if Parliament is not sitting, on the first day after the end of that period.

Yours faithfully

Ajay Nand

AUDITOR-GENERAL



Encl.

The Office of the Auditor-General – Republic of Fiji

The Office of the Auditor-General is established as an Independent Office by the Constitution of Republic of Fiji. Its roles and responsibilities include carrying out performance audits to determine whether an entity is achieving its objectives effectively, economically and efficiently and in compliance with relevant legislation. These audits are carried out by the Auditor-General on behalf of Parliament.

The Auditor-General must submit a report on performance audits carried out to Parliament. In addition, a single report may include two or more audits. This report satisfies these requirements.

The Office of the Auditor-General notes the impact of its reports to Parliament on the ordinary citizens and strives for accuracy and high quality reporting including recommendations which are not only value-adding to the entity subject to audit but its customers, the general public as well.

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SECTION 1: MANAGEMENT OF DUTY CONCESSION SCHEME



**Revenue & Customs
Service Complex**

FIJI REVENUE & CUSTOMS SERVICES

Acronyms

CCO	Chief Customs Officer
CEO	Chief Executive Officer
DC	Duty Concession
DCS	Duty Concession Scheme
FCCC	Fiji Competition and Consumer Commission
FRCS	Fiji Revenue and Customs Service
HS	Harmonize system codes
MTT	Manager Tariff and Trade
MoU	Memorandum of Understanding
NMR	National Manager Revenue
OAG	Office of the Auditor General – Republic of
OIC	Fiji Officer In Charge
PCO	Principal Customs Officer
SoP	Standard Operating Procedure
TFR	Tax Free Region
TL	Team Leader
TT	Tariff and Trade Section
LU	Legal Unit

Audit Overview

Tariff and Trade duty concession management involves the establishment of sufficient guidance materials and processes to consider applications for duty concession. Imposing duties on certain goods are designed to influence the flow of trade by regulating their value to protect the local economy and industry. Importers, traders and manufacturers can obtain duty-free entry of imported goods into Fiji, through the use of duty concession schemes. This entails foregoing revenues that could have been generated.

Therefore, it is crucial to ensure that the duty concession scheme is well managed. The existence of proper monitoring systems and measures are necessary to prevent misuse of duty concessions that could be detrimental to the economy.

What we audited

An audit of the Duty Concession Scheme (DCS) was conducted to assess the efficiency and effectiveness of the Fiji Revenue and Customs Service (FRCS) in managing the scheme by holistically examining:

- the frameworks that are in place to guide the staff, applicants and other stakeholders;
- the equitable processing of applications;
- the management and administration of the scheme; and
- the monitoring and reporting arrangements.

Our audit examined duty concessions management at the Customs Tariff and Trade Section for the period 2013 to 2017.

Our key findings

Governance Framework and Application Processing

- Legislation has not been reviewed to incorporate the changes in practices that have evolved since introduction of the Duty Concession Scheme (DCS). The legislation also does not provide sufficient guidance in the administration, management and general operation of the DCS.
- Standard Operating Procedures (SoPs) have also not been updated in a timely manner.
- Practice Statements to guide applicants are not maintained.
- Absence of a framework for appeals process
- Absence of a framework for the objections process
- Absence of a framework for the internal review process
- Inconsistencies were noted on the authority of the Comptroller to approve and delegate approval of concessions at respective authority levels while reviewing the Customs Tariff Act Cap. 197 against the Tariff and Trade Standard Operating Procedures (SoPs).
- Applications were not approved in accordance with the SoPs.
- Absence of proper documentation and checklist were noted while reviewing files for application of DCS.

Management and Administration of DCS

- Absence of communications strategy or guidance materials on DCS to assist individuals/importers/manufacturers fulfil the requirements of DCS.
- There were minimal stakeholder engagements involving importers and local manufacturers to achieve Government's objective for the DCS.
- A Complaints Register to receive and record complaints was not maintained at the Tariff and Trade Section.

Monitoring and Reporting Arrangements

- Periodic and timely reviews of current practices of the DCS and surveys or campaigns were not carried out to assess potential risks.
- Absence of monitoring programs to assess risk of misuse or abuse of DCS.

- No systematic approach in data collection as it is done on an ad-hoc basis and needs basis only.
- Absence of compliance monitoring guidance to assess transparency and accountability of DCS.
- Non-compliance to the Constitution on reporting of duty concessions to the Auditor General and budget announcement obligations to set up the committee to assess under section 10 applications.
- Benefits of the duty concessions including increased exports, multiplier effects, increased investments and decreased prices to consumers are not monitored or reported.

Overall Conclusion

The frameworks governing the administration and management of DCS have not been reviewed and the guidance materials that have been established were deemed insufficient. The processing of applications for duty concessions have been administered and managed appropriately. However, some approvals were not in accordance with the relevant guidance materials. Relevant documentation and checklists were noted to be lacking in application files.

The functions of the DCS would be enhanced if progress is advanced to facilitate the implementation of appropriate communication strategies, improved stakeholder engagements and monitoring mechanism including the processing of complaints.

Non-monitoring and inadequate reporting arrangements were attributed to a lack of timely reviews of the current practices and surveys or campaigns, absence of monitoring programs with regards to compliance and effectiveness of DCS, absence of a systematic approach in data collection and inconsistencies in monitoring reports.

Our Recommendations

The Tariff and Trade Section of the FRCS needs to review and revise legislations and policies and procedures to ensure alignment with current practices. It should also develop guidance materials and relevant frameworks that will ensure consistency, accuracy, transparency and accountability in its operations.

To address anomalies in management and administration of the scheme, the Customs Tariff and Trade section needs easy accessibility of DCS information for stakeholders, develop a communication strategy to build greater awareness to promote the Duty Concession Scheme.

The FRCS should also review its current practices in a timely manner and monitor and report the benefits that are generated out of all approved DCS. It can also carry out surveys and campaigns to assess compliance of traders and importers who were granted DCS and ensure that the guidance materials are finalised as soon as possible.

In addition to the above, FRCS should develop a program to identify customs data and profile taxpayers who do not comply with the DCS, appoint independent officers to approve linking and ensure integrity of processes. Waiver of customs duty should be reported to the Auditor-General in a timely manner and continuous monitoring and reporting of TFR and MoU requirements.

Reference to comments

A full copy of this report with request for comment was sent to the Fiji Revenue and Customs Services.

Copy of letter sent and response is in Appendix 1.4

1.0 INTRODUCTION

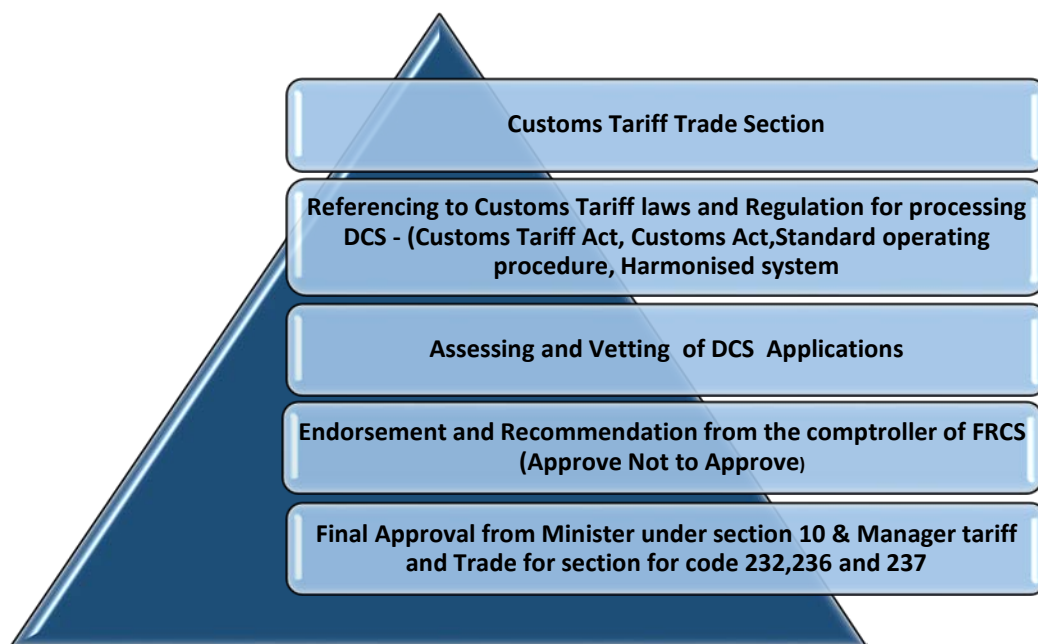
1.1 Overview

- 1.1.1 The FRCS is a statutory authority established under the FRCS Act 1998. FRCS is governed by a Board and administered by a Chief Executive Officer (CEO). It is the government agent responsible for:
- collecting taxes and duties on behalf of government;
 - providing quality advice on tax and customs matter to all its stakeholders;
 - facilitating trade and travel; and
 - protecting the border.¹
- 1.1.2 FRCS was divided in to three major divisions – Corporate, Taxation and Customs. The Customs Division is responsible for collecting customs duties, fiscal duties and VAT. It was also responsible for the administration and monitoring of the DCS. FRCS under the reform initiative was divided into 7 major divisions consisting of Revenue Management, Border Force, Corporate Service, People Capability and Culture, Stakeholder Engagement and International Relations, Intelligence, Compliance and Investigation, Information and Technology.
- 1.1.3 The CEO is the Comptroller of FRCS. Director Revenue administers Customs and Tax divisions and reports to the CEO. Deputy Director Revenue – Customs oversees the operations and management of customs matters, which includes collection of duties and administration of the DCS.
- 1.1.4 The Customs Act, Customs Tariff Act, Excise Act and Customs Prohibited Import and Export Regulations are the principal legislations. DCS policies and procedures such as the Harmonize System of coding commodities and the SoPs were aligned to these legislation. As stipulated under section 10 and 11 of the Customs Tariff Act enacted in 1986, the rationale behind the implementation of the DCS was to create economic and social benefits for the people of Fiji. The Act is yet to be reviewed in its entirety although some amendments were made subsequently, the latest amendment was made in 2010.
- 1.1.5 The Customs Tariff Act also provides FRCS with the governing of DCS processes, which includes procedures for processing of applications, vetting, endorsement and approval of applications.
- 1.1.6 The Customs Tariff and Trade and Long Room Sections are the administrative arms responsible for the collection of duties as well as administration of the DCS. The Tariff and Trade Section is in charge of the administration and processing of section 10, code 236 and as well as code 231 for duty concessions applications. The Long room sections processes and administers other codes listed in the Customs tariff schedule.
- 1.1.7 Our audit focused on DCS under the Customs Tariff and Trade Section to determine their compliance to the Customs Tariff Act, Customs Act, the SoPs and the Harmonize System on the receipting, processing, vetting's, endorsing and approving of applications. Decisions on processing, approvals and endorsements were made according to Section 10 and 11 of the

¹ Fiji Revenue and Customs Services Strategic Plan 2017 to 2020

Customs and Tariff Act, the Harmonizing Coding System and the SoPs. This is shown diagrammatically in Figure 1.1.1 below.

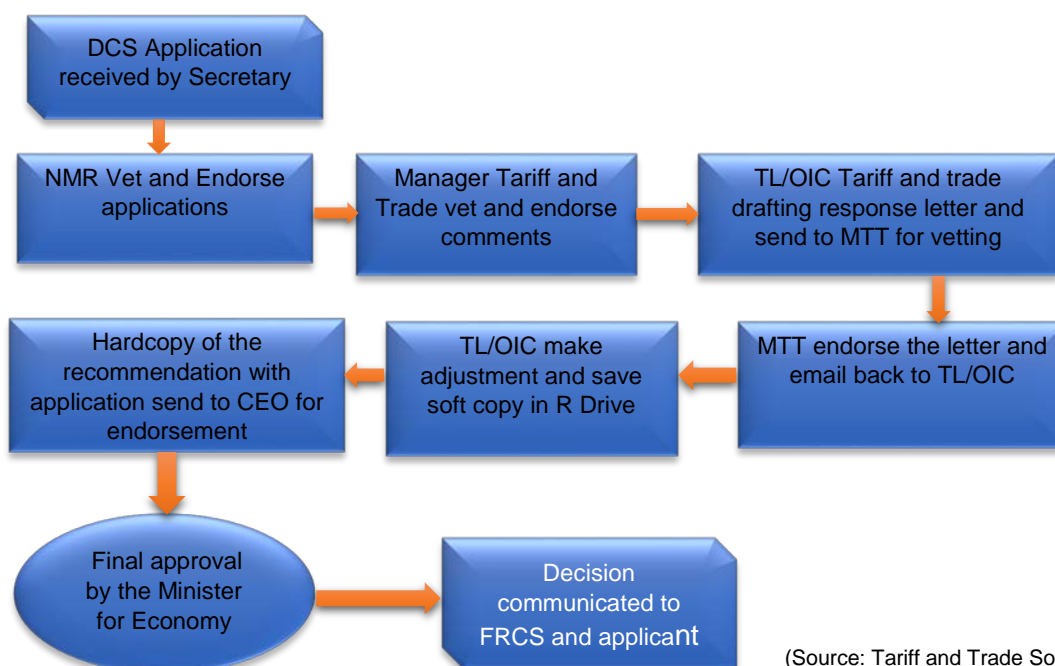
Figure 1.1.1 Audit focus on Duty Concession Scheme processes under the Customs Tariff and Trade Section.



(Source: Tariff and Trade Standard Operating Procedures)

- 1.1.8 Under the SoPs for Section 10 of the Customs Act 1986, applicants prepare a letter of application requesting for duty concessions and lodge their applications to the Tariff and Trade Section or through the Ministry of Economy. The applications are trimmed (Application brief prepared) by the Secretary of Tariff and Trade section and are sent to the National Manager Revenue Customs.

Figure 1.1.2 DCS Application Process for section 10 - Approval process from Minister of Economy.



(Source: Tariff and Trade SoP)

- 1.1.9 The Team Leader Tariff and Trade shall make the necessary adjustments before a soft copy is saved in the recommendation file in the shared drive². The hard copy of the recommendation together with the application letter and supporting documents are despatched to CEO for signing and final approval. After receiving the approved recommendation from CEO, the OIC Tariff and Trade shall assign an officer to despatch the approved recommendation to Ministry of Economy.³
- 1.1.10 Under Code 236, the application for concession shall be trimmed by the Secretary before it is forwarded to National Manager Revenue (NMR) for endorsement; The NMR shall vet and endorse the application before it is forwarded to Manager Tariff and Trade who shall vet and endorse comments before the application is forwarded to Team Leader (TL)/ Officer. This is illustrated in figure 3.10.1 on section 3.10.3 of this report.
- 1.1.11 In ensuring the proper management of duty concessions and value for money is obtained on duty foregone, the Intelligence Unit of FRCS is tasked to monitor the compliance of importers and traders granted duty concession by the FRCS as well by the Minister for Economy. The Intelligence Unit through its investigation procedures for commodities imported by importers and prices of stores and supermarket shelves products, reports on any non-compliance by the importers against the requirements stated under section 10 of the Act and conditions set out in the Schedule for Harmonize Systems Code.

1.2 Reasons for our audit

- 1.2.1 FRCS foregoes possible revenues worth millions of dollars every year under the duty concession scheme. FRCS has given up more than \$3 billion of concessions from 2012 to 2017 as shown in Table 1.2 below. This is also shown in Figure 1.2.1

Table 1.2: Total value of incentives and concessions from 2013 – 2017

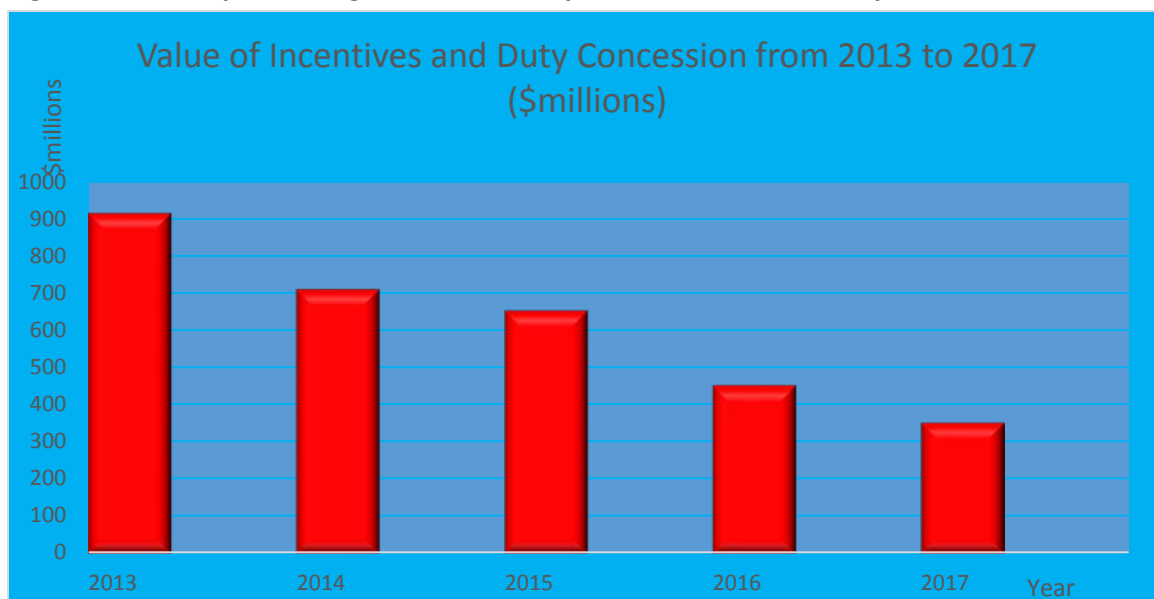
Years	Amount \$Millions
2013	915.2
2014	710.7
2015	653.3
2016	452.9
2017	353.6
	3,085.7

(Notes:

- 2013 – 2015 figures include tax incentives and duty concessions
 - 2016 and 2017 figures include duty concessions amounts only)
- (Source: Annual report 2013-2015; FRCS-ASYCUDA WORLD report 2016-2017)

² Repository Server for storing of electronic documents.

³ Customs Tariff and trade procedure.

Figure 1.2.1 – Graph showing the trend of duty concession in the last 5 years

(Notes:

- 2013 – 2015 figures include tax incentives and duty concessions

- 2016 and 2017 figures include duty concessions amounts only)

(Source: Annual report 2013-2015; FRCS-ASYCUDA WORLD report 2016-2017)

Given the magnitude of possible revenues foregone, FRCS should ensure that the DCS is implemented in an effective and efficient manner which is regularly monitored for compliance and leakages as a result of fraudulent practises and abuse.

Moreover, Section 139 of the 2013 Constitution of Republic Fiji requires FRCS to submit to the Auditor-General all duty concessions given and the reasons for these concessions.

- 1.2.2 The DCS is a government-level mechanism established for the purpose of promoting economic growth, investment, infrastructure and industries and other relevant benefit such as creating employment as well as to protect the local manufacturers and industries from unregulated trades and transshipments of goods. Thus, given the amount of possible revenues forgone, FRCS should ensure that economic growth and other possible benefits are not compromised in any way.
- 1.2.3 The governing of the above government objectives for DCS is stipulated under sections 10 and of the Customs and Tariff Act. In line with the Act and other relevant policies and procedures for DCS, the administration and monitoring of duty concessions is vested with the Comptroller of FRCS with the discretion of the Minister of Economy as stated under the legislation.
- 1.2.4 There are specific regulations, policies and procedures that are designed and implemented to guide and regulate the DCS. Therefore, it is imperative that compliance is made with relevant regulations, SoPs and other guidance materials when managing and administering the DCS.
- 1.2.5 This audit was also considered necessary to determine whether the DCS has been managed and administered in terms of efficiency and effectiveness so that the primary objectives of the scheme are achieved.

2.0 AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

2.1 The purpose of our audit

- 2.1.1 The objective of our audit was to assess the effectiveness and efficiency of the DCS application, processing and approval process and administrations and monitoring of the scheme by FRCS.
- 2.1.2 Our audit was also done to determine the relevance and adequacy of the frameworks governing duty concessions, appropriateness of amendments made and compliance by FRCS in its implementation.

2.2 What we audited

- 2.2.1 The audit focused mainly on FRCS Tariff and Trade Section with regards to the administration, processing monitoring and reporting of duty concessions.
- 2.2.2 The audit also focused on the legislation and frameworks governing DCS and compliance of the Customs Tariff and Trade Section with the legislation and SoPs.
- 2.2.3 We examined duty concessions management practices at the Customs Tariff and Trade section where primarily records held for the years 2013 to 2017 were reviewed.
- 2.2.4 The processing of applications for the duty concession scheme was also evaluated in terms of effectiveness and equity.

2.3 How we audited

- 2.3.1 Our audit was conducted using the following evidence-gathering techniques:

1. Documentary Review

Relevant documents relating to DCS were reviewed. The key documents reviewed included Customs Tariff Act, DCS Operating procedures, FRCS Strategic Plan 2017 – 2020, Harmonize system of coding commodities, FRCS organization structure and organisational plans.

2. Interviews

Interviews were carried out with the following officers:

- Director of Revenue
- Chief Internal Auditor
- Senior Internal Auditor
- Chief Custom's officer (Manager Tariff and Trade)- Tariff and Trade
- Principal Custom's officer (Team Leader) – Tariff and Trade
- Customs Officers – Tariff and Trade
- Customs officer – ASYCUDA world
- Team leader – Legal Section
- Secretary – Customs, Tariff and Trade
- Deputy Director Revenue

3. Analysis

An analysis of data extracted from the R-Drive and ASYCUDA world.

3.0 AUDIT CONTEXT

3.1 Governance Framework and Application Process

- 3.1.1 Governance and oversight arrangements is undertaken as part of the DCS delivery process including appropriate management arrangements that provide a sound basis for the effective delivery of the scheme. The primary concept of a governance framework for the DCS is to ensure that applications are received, vetted, processed and approved in a systematic manner with due regard to accuracy, understandability and completeness of information. The Customs Tariff and Trade Section is expected to use the framework/ SoPs as an opportunity to evaluate/review the entire receipting, vetting, processing and approval of duty concession applications so as to influence the flow of trade by regulating their value to protect local economy and industry.
- 3.1.2 Administration of the DCS forms is an integral part of the scheme. It involves receipt, vetting, processing and approval of applications. Therefore, it deserves a high level of attention from management to avoid probable occurrences of fraud and corruption. Administration procedures need to include effective controls to achieve accountability and transparency. Management's continuous monitoring and evaluation of the administration processes establishes the integrity and compliance with regulations, policies and procedures.

3.2 Framework Governing Duty Concessions

- 3.2.1 A regulatory framework is the existence of a necessary infrastructure which supports the control, direction or implementation of a proposed or adopted course of action, rule, principal or law.
- 3.2.2 The ultimate goal of regulating DCS is to guide and regulate the operations of the scheme so that decisions made reflect a clear link between the legal provisions and Customs work process.
- 3.2.3 The framework for the DCS should include the assessment of DCS applications, appeals and objections processes as well as guidelines for the internal and external review of decisions. In addition, it should also include a documented process for compliments and complaints management. These arrangements provide an appropriate framework for all operations pertaining to the DCS.⁴

3.3 Review of Legislation

- 3.3.1 The Minister may make regulations with respect to the operation or administration of the duty concession scheme.⁵
- 3.3.2 The Minister may make regulations providing for—
(a) the form of certificates and other documents to be used in relation to goods imported into or exported from Fiji and intended to be used as materials in the manufacture of goods in Fiji;

⁴ Best Practice, Administration of the Tariff Concession System

⁵ Customs Act 1986 Section 36H, (Inserted by Act No. 9 of 2002 s. 5)

(b) the rebate, suspension or refund of the whole or any part of the duty payable or paid on any goods imported for use as—

- (i) Machinery, equipment or parts thereof; and
- (ii) materials, to be used in manufacture or production in Fiji and the withdrawal wholly or in part of any such rebate, suspension or refund; (c) the better carrying out of the provisions of this Act.⁶

- 3.3.3 The Customs Act and the Customs Tariff Act forms the regulatory framework that guides the implementation of DCS. These were enacted correspondingly through Act No. 11 and 12 of 1986 and came into force on 01 November 1986 through Legal Notice No. 105 and 106 of 1986. The enactments and legal notices were presumed to be the initiation point for the scheme. Apart from these, we were not provided other records by FRCS to indicate the actual date the DCS was established in Fiji.
- 3.3.4 We noted that the Customs Act and the Customs Tariff Act has not been reviewed since its inception in 1986.
- 3.3.5 Even though the legislations have subsequently been amended over the years to progress the initiative as highlighted in Table 3.3 (e.g. such as the imposition of fine not exceeding \$5,000 to a person who fails to comply with any conditions imposed by the Comptroller under the scheme), we noted that key areas were still not captured in the legislation as detailed below:
- (i) direction on how to deal with applicants appeals in the event that the application is declined. Refer 3.1 for details of the issue;
 - (ii) direction on how to deal with local manufacturers producing substitutable products, objecting duty concessions applied by an importer. Refer 3.3.5 for details of the issue;
 - (iii) direction on the decision review process. Refer 3.3.6 for details of the issue.

Table 3.3: Amendment Dates

Customs Act Amendment Dates	Customs Tariff Amendment Dates
Decree No. 33 of 1992	Act No. 22 of 1995
Act No. 6 of 1992	Act No. 27 of 1996
Act No. 23 of 1995	Act No. 32 of 1996
Act No. 23 of 1996	Decree No. 35 of 2000
Act No. 23 of 1997	Act No. 7 of 2001
Act No. 9 of 1998	Act No. 10 of 2002
Act No. 57 of 1998	Act No. 23 of 2005
Act No. 36 of 1999	Promulgation No. 18 of 2008
Decree No. 31 of 2000	Promulgation No. 19 of 2008
Act No. 9 of 2000	Promulgation No. 33 of 2008
Act No. 23 of 2003	Decree No. 15 of 2009
Promulgation No. 14 of 2007	Decree No. 10 of 2010
Promulgation No. 41 of 2007	
Promulgation No. 32 of 2008	
Decree No. 9 of 2010	
Decree No. 4 of 2012	
Act No. 8 of 2014	
Act No. 23 of 2015	

⁶ Customs Tariff Act Section 22.(1)

- 3.3.6 The legislation does not incorporate the current practices that have evolved since.
- 3.3.7 Discussions during our audit indicated that the legislation is yet to be reviewed and necessary action is being taken to review them.
- 3.3.8 Failure to perform timely reviews of the legislation governing and overseeing the DCS prevents effective management of the scheme.
- 3.3.9 FRCS has informed that it has already commenced on the legislative review process on all Customs legislation. As this will require extensive consultation with relevant stakeholders, it is planned to complete the review in the next three years.

Recommendations

1. **The Customs Act of 1986 should be reviewed to incorporate all current practices not included in the existing legislation. The review should consider creating new clauses to address actions to be taken in the event that an appeal, objection or internal review takes place.**
2. **Moreover, the review should also consider clauses pertaining to duties and responsibilities of FRCS staffs to accommodate the changes in technology that have risen over time and the additional activities/ responsibilities to address such changes.**

3.4 Standard Operating Procedures for Code 236 and Section 10

- 3.4.1 Apart from the Customs Act and the Customs Tariff Act of 1986, the only guidance material for the DCS is the Standard Operating Procedures (SoPs).
- 3.4.2 The SoPs reflect the approval process of duty concession applications from receipt of applications for concessions to the approval of concession, including the recommendation to the Minister of Economy. The primary objective of SoPs is to:
 - I. ensure that policies, laws and regulations regarding duty concession are complied with; and
 - II. enhance trade facilitation and encourage compliance.⁷
- 3.4.3 We noted that while the Harmonise Systems code requires different treatments of duty concessions depending on the type of item imported as highlighted in **Appendix 1.1**, the SoPs does not specify the treatment for items. However, it only provides guidelines for two distinct applications as specified in Table 3.4 below:
 - I. Application for Section 10 approval
 - II. Application for Concession under code 236 of Part III of the Customs Tariff Act.

⁷ Tariff and Trade Standard Operating Procedure 1.0

Table 3.4: Specifications of Applications outlined in the SoPs

Application for Section 10 approval	Application for Concession under code 236 Part III of the Customs Tariff Act
Goods imported or being imported act as a relief in the event of a disaster declared by the Government as a national disaster.	All goods other than machinery equipment and motor vehicles (including parts and materials) of the approved goods falling under chapter 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96 of the HS code under the condition that the materials are to be used by the manufacturer in the manufacture of the approved goods.
The importer of the goods is a person or organisation covered under any International Agreement or Convention between the respective Governments or Parties.	All goods used as raw materials in the manufacture of excisable products in the condition that the materials are to be used by the manufacturer of the approved goods.
The importer of the goods is a registered religious or charitable organisation, justifiable having regard to the purpose for which the organisation was established.	Machinery, equipment and accessories in the manufacture of goods in the condition that the machinery is to be used by the manufacturer in the manufacture of approved goods. ⁸
The reduction or refund of fiscal duty will contribute an identifiable benefit to the country.⁹	

3.4.4 Our discussions with representatives of FRCS on 07 February 2018 at the Tariff and Trade Section revealed that Harmonised Systems (HS) codes 102 – 135 involving goods that are eligible for concessions are dealt with at the port level. This also includes other Harmonised Systems codes except for HS code 231, 232 and 236 which are dealt with at the Tariff and Trade Section. We were informed that for this reason, the SoPs do not capture the other HS codes as they are dealt with at the port level.

Manager Tariff and Trade also advised that when applications are received for items not covered under the SoPs, the same processes pertaining to items under HS code 236 is applied.

3.4.5 We further noted that the SoPs do not capture the disseminating information from the Minister for Economy to the applicant through a response letter advising them of the decision to on whether their application was approved or declined.

3.4.6 Review of the applicants files revealed that a copy of the Minister for Economy's decision is retained in the file and the original copy is forwarded to the client. The SoPs do not capture this dissemination process.

3.4.7 In addition, audit review of the SoPs revealed that clear timelines were not specified in the processing of concession applications or tariff rulings. Given the evolving nature of the FRCS and its aspirations to benchmark its operations to international best practice, it is crucial that clear timelines are set so that processing of applications are timely, cost-effective and efficient. Refer exhibit 3.1 for a specific turnaround processing time in the Australian Customs and Border Protection Service.

⁸ Tariff Schedule Harmonize System – Code 236

⁹ Customs Tariff Act – Section 10

Exhibit 3.1: Turnaround Processing Time for Australian Customs and Boarder Protection Service.**DCS Application Processing:**

- Upon receiving DCS applications, Customs takes 28 days to process the application and its validity is determined.
- When a decision is made within the 28 days, the next 150 days is provided to Customs to contact local manufacturers and the period is open to local manufacturers for objections.
- Applicants should give potential manufacturers 10 working days to respond before and application is lodged.

Objection Application Processing:

- Local manufacturers must submit an application for objection within 50 days of the original gazettal date, if they decide to object to a DCS. This is distinct from the 150 days that Customs has to invite objections.
- Upon receiving an objection from a local manufacturer, the DCS applicant has 28 days to propose an amendment to the application after receiving notification from Customs on the identity of the objector and the basis of the objection.

Revocation Application Processing:

- When an application for revocation is received, a decision has to be made within 60 days based on the information provided and inquiries made by Customs.

Source: ATO Website on Tariff Concession System Process

3.4.8 While the above issue was also raised in a report by the FRCS Internal Audit team in 2015, there has not been any progress to implement the recommendations made in the report.

3.4.9 We were advised by representatives of FRCS on 7 February 2017 that timelines have been incorporated in the draft SoPs. However, our review of the draft SoPs revealed that timelines have only been set for the following:

- I. Issue of Import License for Second Hand Motor Vehicles – standard processing period should be 5-10 working days.
- II. Issue of a Tariff ruling – standard processing time shall not be more than 30 working days.

We noted that the timelines for the application processing for goods covered under HS code 231, 232 and 236 were not specified. This was contrary to the comments provided by management in the 2015 Internal Audit report, that processing times would approximately take 2-3 days depending on the information provided by applicants and how quickly queries were responded to.

3.4.10 Audit findings indicate that the SoPs do not cover all facets of items that duty concessions may be made applicable, including the dissemination of information with the Minister for Economy and specific proper application processing timelines.

3.4.11 While the positive developments towards revised SoPs is acknowledged, it was yet to be endorsed and approved for implementation at the time of our audit.

3.4.12 Inability of FRCS to incorporate all relevant activities and procedures may lead to lack of uniformity in the work processes.

3.5 Review of SoPs

- 3.5.1 Standard operating procedures should be monitored and reviewed to accommodate changes that have occurred over the years.¹⁰
- 3.5.2 Audit could not determine the date the SoPs currently being used by the Section were approved.
- 3.5.3 Audit gathered that the existing SoP currently used is outdated as the application processing procedures outlined in the manual is outdated and need to be reviewed so as to align it with the changes that have taken place within the Section. It was also noted that there were changes in the substantive positions for approving officers in 2016 which are yet to be incorporated in the SoPs. Some of the changes are included in Table 3.5 below.

Table 3.5: Changes of Post name at Tariff and Trade Section

Old Position	New Position
National Manager Revenue Customs	Deputy Director Revenue -Customs
Manger Tariff and Trade	Chief Customs Officer Tariff and Trade
Team Leader	Principal Customs Officer
General Manager Customs	Director Revenue

- 3.5.4 Furthermore, audit review of the draft SoPs showed that even though the change in positions has been incorporated, other evolving processes such as the appeals, objections and internal review processes are yet to be incorporated.
- 3.5.5 Delay in carrying out timely reviews of policies and procedure guidelines weaken effective management of duty concession processes.
- 3.5.6 FRCS has explained that the review of all standard operating procedures pertaining to administration of duty concession is work in progress with specific timelines. This will be done through phases and 1st phase would be completed within three months.

Recommendations

3. The Customs Tariff and Trade Section should consider reviewing the SoPs particularly on matters relating to:
- changes in organisation structure and related duties and responsibilities of staffs.
 - directions on the treatment and processing of various sets of imported items from goods, persons or bodies and exported items that would be subject to duty concessions listed in the HS code.
 - capturing the information dissemination process to and from the Minister for Economy and the timelines for processing of concession applications or tariff ruling.

¹⁰ Best practice guide

3.6 Practice Statements

- 3.6.1 Practice Statements for DCS are vital as they provide assurance to DCS applicants that their applications would be properly considered in accordance with the DCS policies and procedures.
- 3.6.2 The purpose of any Practice Statement is to provide guidance on the Customs clearance for concession goods applicable under Code 212. It is issued with the authority of the Chief Executive Officer (CEO) of the Fiji Revenue and Customs Service (FRCS) who is also the Comptroller of Customs.¹¹
- 3.6.3 Review of the processes for DCS revealed that the Section does not maintain a Practice Statement to provide guidance to the applicants when submitting applications for DCS.
- 3.6.4 We were informed that some practice statements have been drafted but are yet to be endorsed. Hence, it does not appear on the FRCS website.
- 3.6.5 Whilst the Customs and Tariff Act is being made available to members of public in the FRCS website, other relevant documents have not been provided to assist in better understanding of the processes relating to DCS.

Recommendation

- 4. Practice statements should be finalised and issued by the Customs Tariff and Trade Section to provide guidance to applicants on the customs clearance of concessionary goods.

3.7 Absence of Framework for Appeals Process

- 3.7.1 Applications for DCS are either approved externally by the Minister for Economy or internally by the Manager Tariff and Trade.
- 3.7.2 With respect to external approval from the Minister for Economy, the hard copy of the recommendation together with the application letter and supporting documents is despatched to the Chief Executive Officer (CEO) for signing and endorsement. After receiving the endorsement from CEO, the Officer in Charge (OIC) Tariff and Trade shall assign an officer to despatch the approved recommendation to Ministry of Finance.¹² Refer to Figure 1.1.2 for details of process.
- 3.7.3 On the other hand, applications for concession under code 236 of Part III of the Customs Tariff Act are made internally. Once the NMR endorses/rejects the inspection report which is compiled by the Inspection Officer and provides recommendations, it is forwarded to the Manager Tariff and Trade who endorses comments on the inspection report and forwards it to the OIC/TL Tariff and Trade to draft the reply to the applicant. Later, the OIC/TL Tariff and Trade shall forward the draft letter to Manager Tariff and Trade/NMR for vetting and once

¹¹ Duty concession Practice statement code 212

¹² Tariff and Trade Standard Operating Procedures, section 7.1.8 and 7.1.9.

vetting is complete, the OIC/TL Tariff and Trade shall despatch the endorsed letter to the applicant and file the Customs copy in the respective folders.¹³ Refer to Figure 3.10.1 for details of process.

- 3.7.4 Evidently, practice entails that applications may be rejected. Consequently, applicants may want to appeal the decision if they are not satisfied with the decisions.
- 3.7.5 Therefore, the Section should have in place a framework to guide the appeals process. The framework/guideline should include the following:
- i. Processing timeline as to when appeals can be lodged and processing timelines for Customs officers.
 - ii. A standardised form to be completed by the applicant
 - iii. Practice Statement on how to complete the form.
 - iv. A justification requirement for lodging the appeal.
- 3.7.6 Our reviews of a sample of applications indicated that in one instance an applicant had appealed the decision that was made by the approving officers. This confirms that DCS applicants also appeal decisions made when applications are rejected/declined.
- 3.7.7 Given that appealing a decision requires additional time and effort on the part of both the applicant and the Custom Tariff and Trade Section, there is a need for a framework to guide the appeals process.
- 3.7.8 The framework for the DCS appeals process would also provide a number of opportunities for internal and external review of decisions.
- 3.7.9 We noted that the Section does not maintain guidelines for the DCS appeals process.
- 3.7.10 Absence of a DCS appeals process prevents applicants from questioning the decision-making process of the Section.

Recommendation

- 5. The Customs Tariff and Trade Section should consider developing a framework for applicants lodging appeals in case of internal or external decisions being declined. The framework should specify timelines as to when appeals can be lodged and a justification requirement for lodging the appeal. It should also incorporate details of the relevant forms to be completed and the respective practice statements to guide the applicants in filling the form in the most accurate way possible.**

¹³ Tariff and Trade Standard Operating Procedures, section 7.2.6 to 7.2.12.

3.8 Guideline for Objection Process

- 3.8.1 A local manufacturer may opt to object to a DCS if they manufacture substitutable goods for those described in the DCS application.
- 3.8.2 DCS should have in place a framework to guide the objection process. The guideline, in addition to specifying the time during which objections are invited, should include the following:
- I. The processing timeline for the Customs officers to process the objection application.
 - II. A standardised form to be completed by the party objecting the DCS.
 - III. Practice Statement on how to complete the form.
 - IV. A requirement to provide sufficient evidence to demonstrate that the locally manufactured goods are substitutable for the goods described in the DCS application.
 - V. Requirement to inform the applicant in writing and provide a short statement outlining the grounds on which each objection is based.¹⁴
- 3.8.3 Audit review of sample of applications noted that in two instances objections were received indicating the need for policies and procedures to guide the receipt and processing of objections.
- 3.8.4 Similar to lodging appeals, the process of submitting an objection can become a lengthy process for a local manufacturer on the potential of the item being applied for duty concession is a substitutable product. Thus, the approval of the application depends on the responses highlighted in Table 3.8 below.

Table 3.8: Response from local manufacturer and its subsequent ruling

Response from local manufacturer	Ruling
Item is a substitutable product	Application is approved
Item is not a substitutable product	Application is not approved.

- 3.8.5 We noted that the Section does not have approved policies and procedures to guide the DCS objection process.
- 3.8.6 The absence of a DCS objections process prevents effective and efficient management of the DCS.

Recommendation

6. The Customs Tariff and Trade Section should consider developing a framework for stakeholder objections. The framework should specify timelines as to the period open to stakeholders for objections and the processing timeline for the Customs officers to process the objection application. It should also include details of the relevant forms to be completed and the respective practice statements to guide the stakeholders in filling the form in the most accurate way possible. In addition, it should incorporate requirements to provide sufficient evidence to demonstrate that the locally manufactured goods are substitutable for the goods described in the DCS application. Furthermore, a requirement should also be included to inform the applicants in writing and provide a short statement outlining the grounds on which each objection is based which should also be included in the guidance material. Approved DCS applications should also be considered for gazetting.

¹⁴ Best Practice Checklist, Duty Concession Scheme - ATO

3.9 Framework for Internal Reviews

- 3.9.1 The Internal review process provides important insights into the quality of the Duty Concession decision-making process. Reviewing (on a risk-based sample basis) decisions to make Duty Concessions would provide greater assurance that DC decisions are being made in accordance with legislative and procedural requirements.¹⁵
- 3.9.2 We noted that the Section has not conducted any internal review of decisions making process of the DCS.
- 3.9.3 We further noted that the Section does not maintain a framework or guidelines for the DCS internal review process.
- 3.9.4 We were informed that in the absence of a decision review process, the review of decisions would have been included in the scope of the FRCS internal audit team.
- 3.9.5 Audit review of the 2015 internal audit report revealed the following findings:
- i. Lack of clear timeliness for issuance of concessions
 - ii. Lack of implementation of FRCS's Commitment to 2014 OAG report
 - iii. Concessionaires vs. Economic Spin-offs Effect
 - iv. Non-use of company name when assessing entries (applications).

Evaluation of the contents of each finding showed that there were no issues raised regarding the premise of whether decisions for approving or declining concessions were being made in accordance with legislative and procedural requirements. However, it is not clear whether the internal audit team had covered it in their audit scope in 2015 or not.

- 3.9.6 Failure to consistently conduct internal reviews in a systematic manner would result in delay in identifying of weaknesses within the scope of the DCS process and inherently develop a reactive approach to corrective decisions rather than a preferred proactive one. This would prevent timely rectification of issues in accordance with legislative and procedural requirements.
- 3.9.7 While the FRCS Internal Audit team is commended for its findings, it must be noted that an internal audit activity does not act as a substitute to the roles and responsibilities of management.

Recommendation

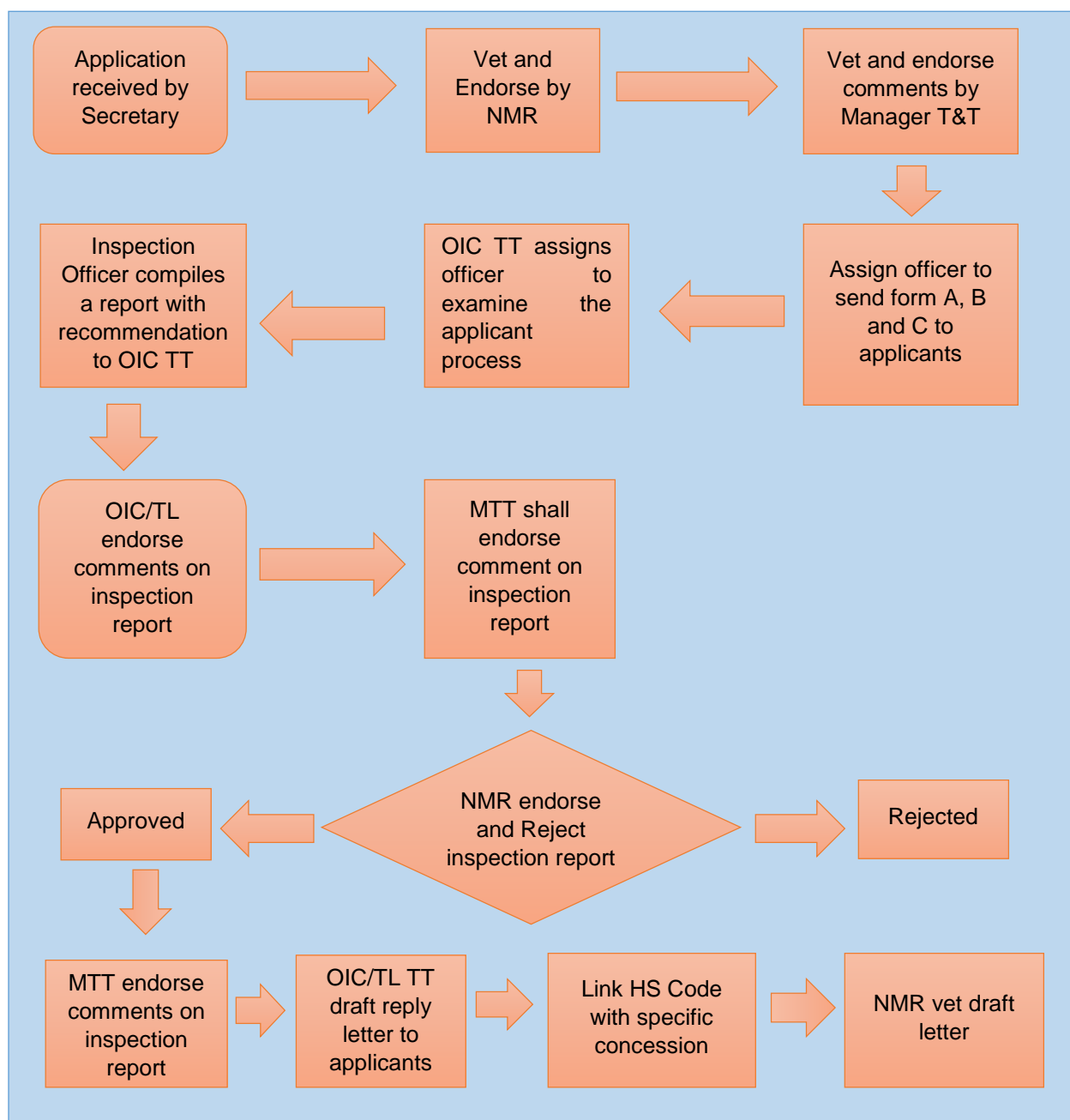
- 7. The Customs Tariff and Trade Section should ensure that procedures or controls are put into place for self-assessment to be done to determine compliance with policies and procedure by staffs and to guide the internal review of decisions specifically to provide greater assurance that DCS decision have been made in accordance with legislative and procedural requirements.**

¹⁵ Best Practice Checklist, Duty Concession Scheme - ATO

3.10 Duty Concessions Scheme Application process

- 3.10.1 The process of assessing DCS application generally involves Customs officers receiving applications, examining application form, determining whether or not DCS application should be approved, drafting of response letter to applicant and vetting of documents. These processes are subject to review and endorsement by staffs at respective authority levels.
- 3.10.2 During our audit, we evaluated and determined whether or not the Section has a comprehensive system and processes to approve applications in an open, transparent and accountable manner.
- 3.10.3 The process of assessing DCS applications is outlined in Figure 3.10.1 below.

Figure 3.10.1: Duty Concession scheme application process



- 3.10.4 The re-organization of the FRCS has allowed the update of the Tariff & Trade Section procedures. However, delays were noted in the provision updated SoPs during our audit. The processes illustrated above were based from the procedures before the reforms were made in the organization in 2015.
- 3.10.5 Our examination of the processing of applications for DCS included the review of the number of applications processed and approvals and those which were declined. However, most information requested were not readily available. Details are shown in Table 3.10.2 below.

Table 3.10.2: Applications processed, approved and declined

Year	Number of Applications received	Number of Applications approved	Number of Applications declined
2017	106	96	10
2016	93	Not provided to OAG	Not provided to OAG
2015	Not provided to OAG	Not provided to OAG	Not provided to OAG
2014	518	Not provided to OAG	Not provided to OAG
2013	Not provided to OAG	Not provided to OAG	Not provided to OAG

3.11 Overview of Application Processing

- 3.11.1 Application processing is the core function of the DCS. It involves the processes of assessment and vetting of application by delegated custom officers, endorsement and approval by Managers, Team leader and National Manager Revenue. Harmonized System stipulates the approval delegation of the National Manager Revenue (Code 236) and the Minister of Economy (Code 232).
- 3.11.2 SoPs outline the procedures for processing of applications. The SoPs for Tariff & Trade shall be developed in line with the Customs and Tariff Act. Customs and Trade Section when processing applications should adhere strictly to the procedures outlined in the SoPs and ensure each processes is done in an open, transparent and accountable manner.

3.12 Comparison of Custom Tariff Act against Tariff & Trade Standard Operating Procedures

- 3.12.1 The Minister may after receiving recommendation to do so from the Comptroller and subject to such conditions as the Minister may consider necessary, reduce or refund the whole or part of fiscal duty and import excise duty paid or payable by a person or organization in respect of goods imported into Fiji, if the Minister is satisfied that—
- (1)
- the goods imported or being imported act as a relief in the event of a disaster declared by the Government as a national disaster;
 - the importer of the goods is a person or organization covered under any International Agreement or Convention between the respective Governments or Parties;
 - the importer of the goods is a registered religious or charitable organization and that any reduction or refund of such duty is, in the circumstances, justifiable having regard to the purpose for which the organization was established;
 - the reduction or refund of fiscal duty will contribute an identifiable benefit to the country.

- (2) Unless otherwise indicated by the Minister, the reduction or refund approved under subsection (1) (d) shall remain in force for a period of 12 months after approval.
 - (3) For the purposes of subsection (1)(d), the applicant for a concession must:
 - (a) make application in writing to the Comptroller;
 - (b) set out in the application the detail of the concession sought and its fiscal duty value; and
 - (c) outline the benefit to the country that the concession will provide.¹⁶
- 3.12.2 The Minister may, subject to such conditions as he may consider necessary, remit or reduce duty payable in respect of imported machinery and equipment (including parts and materials) if he is satisfied it is to be used in a manufacturing or production process which will promote or create the development of industry in the country.¹⁷
- 3.12.3 The Minister may, subject to such conditions as he considers necessary, exempt from payment of duty on the importation or purchase ex - bond of machinery, equipment and materials if he or she is satisfied that they are to be used by any company licensed under Tax Free Zone Decree 1991.¹⁸
- 3.12.4 The Minister may, subject to such conditions as he considers necessary, exempt from payment of duty on the importation or purchase ex - bond of machinery, equipment and materials if he or she is satisfied that they are to be used by any company licensed under the Twelfth Schedule of the Income Tax Act.¹⁹
- 3.12.5 The DDR shall endorse/ reject inspection report and forward to Manager Tariff and trade.²⁰
- 3.12.6 The Manager Tariff and Trade shall endorse comments on the inspection report and forward to OIC/PCO Tariff and trade to draft the reply to the applicant.²¹
- 3.12.7 Our review of the Customs Tariff Act Cap. 197 against the SoPs revealed that there were no provisions in the Act for delegation of approval of duty concession application to the Comptroller of FRCS, to approve applications under HS codes 232, 236 and 237. However, the SoPs state that applications under Codes 232, 236 and 237, approvals to be made internally by the Deputy director Revenue and Chief Customs Officer of Tariff and Trade Section, respectively. Hence this is not aligned to any provision of the Act.

Recommendation

- 8. The Customs Tariff and Trade Section should consider strengthening the SoPs for Tariff & Trade Section to ensure that it is aligned to Section 10 and 11 of the Customs Tariff Act and current practices.**

¹⁶ Section 10(1),(2) and (3) Customs & Tariff Act

¹⁷ Section 11(1) Customs & Tariff Act

¹⁸ Section 11(A) Customs & Tariff Act

¹⁹ Section 11(B) Custom & Tariff Act

²⁰ Tariff and Trade Procedure

²¹ Tariff and Trade Procedure

3.13 Non-adherence to SoPs of the Tariff and Trade Section

- 3.13.1 Generally, SoPs provide uniformity in work processes. Tariff and Trade procedures was developed for the purpose of compliance with relevant laws, policies and regulation as well as enhancing trade facilitation. It involves procedures commences with receiving the application for concession to the approval of concession on recommendation to Ministry of Finance.²²
- 3.13.2 DCS applications under Section 10 in the SoP is illustrated in figure 1.1.2. These are applications that are processed for the Minister's approval.
- 3.13.3 DCS applications under Code 236 and other codes is illustrated in figure 3.10.1. These are applications approved within FRCS.
- 3.13.4 We noted from our review of a sample of DCS applications that the processes in which applications were approved were not in accordance with the SoPs. Refer Appendix 1.3 for examples of documents that did not comply with the SoPs relating to approval of commodities granted concession under HS Code 236, 231 and other relevant HS codes. Cases found during the audit included the absence of vetting by Manager Tariff and Trade, lack of endorsement before file is moved to the MTT, required forms (Forms A, B & C) were not filed and inspection reports were not filed.
- 3.13.5 Non-compliance with SoPs indicate deficiencies in review of applications by the Team Leader.

Recommendation

9. **The Customs Tariff and Trade Section should comply with the approved SoP on Tariff and trade when processing application for duty concessions.**

3.14 Lack of appropriate documentations

- 3.14.1 A checklist is a list of all the things that you need to do, information that you want to find out. A list of items, facts, names, etc. to be checked or referred to for comparison, identification, or verification.²³
- 3.14.2 Upon receipting of the applications, the delegated assessment officer shall ensure that relevant documentation required to be submitted from applicants is attached and filed. The required appropriate documents shall contain all appropriate and relevant data and information that will lead to the full assessment of the applications, which will enable customs and tariff section and the Minister of Economy formulating an equitable and appropriate conclusions.²⁴
- 3.14.3 We reviewed files for application for DCS and noted that the absence of relevant documents in the files. The table illustrated in Appendix 1.2 displays the examples of cases where relevant documents such as inspection reports and ABC forms were not filed.

²² Fiji Revenue & Customs Service Tariff & Trade Standard Operating Procedure, Section 1.0 and 2.0

²³ Square bracket –English Dictionary

²⁴ Best Practice

- 3.14.4 Absence of relevant documents indicate poor record-keeping which prevented us to review and determine the validity of decisions made by Custom Officers.

Recommendation

10. The Tariff and Trade section should ensure that files are properly maintained to include relevant supporting documents.

3.15 Manual Information Management

- 3.15.1 A database management system, or DBMS, is software designed to assist in maintaining and utilizing large collections of data, and the need for such systems, as well as their use, is growing rapidly. The alternative to using a DBMS is to use ad hoc approaches that do not carry over from one application to another; for example, to store the data in files and write application-specific code to manage it. The use of a DBMS has several important advantages.²⁵
- 3.15.2 We noted that FRCS Tariff and Trade Section does not maintain a centralized database to store, process, vet and approve DCS applications. However, DCS applications for HS Codes 236,231 as well as section 10 are processed manually. Tariff and Trade Section staffs delegated under the SoPs, manually processed applications.
- 3.15.3 From the initiation of the process, the application is trimmed by customs secretary, using the TRIM (Record Information Management system) before it is forwarded to the Deputy Director Revenue who then delegates the applications to Customs Officers for manual review and vetting of applications based on the rationale of section 10 of the Customs Tariff Act and the conditions of the Tariff Schedule. After the application process, data and information of assessment and approval are kept in the hard copy manila files, and soft copies are scanned and stored in the shared drive.²⁶ in the Tariff and Tariff Section. The shared drive stores scanned applications as well as assessment trails, FRCS Comptroller approval and copy of the opinion of the Minister of Economy.
- 3.15.4 We noted that the absence of centralised database system has resulted in improper records management. While requesting for hardcopy files of applications as well as the soft copy files from the Shared Drive²⁷ from 17/01/18 to 23/02/18, we noted that the applications information and data were neither properly managed in hard copy files nor the electronic copies properly stored in the shared drive.
- 3.15.5 We were also informed that some files were misplaced in the storage rooms and within FRCS buildings due their frequent movements of files and also due to excessive stacking of files where certain files were misfiled, while some files were lost during their transfer from the old Customs buildings in Walu bay to their current location in the Nasese building. The following files were not provided for our review by the Customs Officers.

²⁵ Database Management System second Edition – Raghu Ramakrishna and Johannes Gehrke

²⁶ Repository Server for Storing of electronic documents.

²⁷ Repository server for Storing of electronic documets.

Table 3.15 List of files of applicants requested by audit but not provided by FRCS

Applicants	Hardcopy File	R Drive soft copy files	Status
Company F	Not available	Not available	Misplaced
Company G	Not available	Only car import license available	Misplaced
Company H	Not available	None available	Lost
Company I	Not available	None available	Lost
Company J	Not available	Only car import license	Lost
Company K	Not available	None available	Lost
Company L	Not available	None available	Misplaced

3.15.6 Given FRCS strategic intent is to become a world-class revenue collections and service provider organization, it is important that that FRCS implements an Electronic Data Management System (EDMS) to process, store and make available duty concession data for its decision-making process as well as on the compliance or otherwise of applicants to the rationale of duty concession stated in section 10 and 11 of the Act as well as to the conditions set out in the Tariff schedule. The implementation of an EDMS will also enhance information security, as FRCS is dealing with sensitive taxpayer information.

Exhibit 3.2: Management System of application processing and decision making.

A simple EDMS could have the following modules:

- *Entering an application for a DCS ;*
- *Recording a decision to make or refuse a DCS;*
- *Recording an objection to DCS against a recipient;*
- *Revoking a DCS when objection has been approved;*

3.15.7 Efforts by FRCS to move towards EDMS will result in achievement of its strategic intent as well in its data management and information security.

3.15.8 Currently FRCS is using MS Access database and will start using the electronic scanning of all duty concession correspondence using the HPRM (records management) system by end of May 2018.

Recommendation

11. The Customs Tariff and Trade Section should consider investing in an EDMS to receive, register and process DCS applications and generate information to assist in management reporting and decision-making.

4.0 MANAGEMENT AND ADMINISTRATION OF DUTY CONCESSIONS SCHEME

4.1 General Administration

- 4.1.1 Administration arrangements have been established by the Customs Tariff and Trade Section to facilitate its delivery of the DCS, including appropriate management arrangements that provide a sound basis for the effective delivery of the system.
- 4.1.2 For DCS to be successful from application to approval stages, resources should be optimised to achieve the rationale of granting DC. Proper Management and administration of the Tariff and Trade Section is important to make DCS processes more efficient. The systematic approach to approval is the key to realising transparency and accountability throughout the DCS process.
- 4.1.3 Good coordination, understanding and collaboration amongst stakeholders is also important to achieving Government's objectives for the DCS. Customs Tariff and Trade Section is encouraged to communicate with a broad range of stakeholders with diverse interest. Effective stakeholder engagement is important so as to ensure that benefits also trickle down to customers and local manufacturers are not disadvantaged and fairness is maintained in the granting of concessions.

4.2 General Awareness and Promotional Activities

- 4.2.1 Customers have an increasing expectation that access to FRCS information and Service, filing of returns and payment procedures will be delivered in a way that is convenient and cost effective. In addition, there is also the need to continually and consistently apply laws and policies fairly to all duty concession applications received.
- 4.2.2 With the pending introduction of self-assessment this expectation will increase. With the cost of internet service and hardware steadily decreasing, access to the internet in the community is increasing exponentially. The development of e-Service will need to meet customer expectations and needs.²⁸
- 4.2.2 We noted that the FRCS did not have communications strategy or guidance material on DCS on its website. The guidance materials would help an individual/importer/manufacture to fulfil the requirements of DCS so as to maximise the success rate for their applications.
- 4.2.3 In addition, the following guidance materials were not provided on FRCS website:
 - I. Flowchart of the work process of Duty Concession Scheme.
 - II. Screening checklist.
 - III. Practise statements.
 - IV. DCS instructions and Guidelines, penalties of DCS infringements if misused or abuse.
- 4.2.4 We also noted that promotional and awareness programs relating to DCS have not been undertaken by FRCS over the past five years.
- 4.2.5 Stakeholders will be more involved when they become aware of the requirements DCS as it would affects them directly. Usually large manufacturers would be more likely to be aware of

²⁸ FRCS Strategic Plan 2017-2020- Customer service expectations and needs

the DCS indicating that there is scope to improve the quality of the information made available to potential recipients of DCS.

- 4.2.6 Having an informative website would ensure that all stakeholders are aware of the requirements of the Duty Concession scheme.
- 4.2.7 FRCS has a full time public relation team which organises consultation and awareness throughout the year and also awareness is done in budget consultation engagement.

4.3 Engagement of Stakeholders for DCS

- 4.3.1 FRCS should consider the manner whereby it manages and promotes stakeholder engagement. FRCS is a statutory authority established under the FRCS Act 1998 that is governed by a Board and administered by a Chief Executive Officer. FRCS's role is to:
- Collect taxes and duties on behalf of government;
 - Provide quality advice on tax and customs matter to all its stakeholders;
 - Facilitate trade and travel; and
 - Protect the border.²⁹
- 4.3.2 We noted during our audit that there is little stakeholder engagement between FRCS and its stakeholders. Stakeholder engagement is done generally through the budget consultations annually and applications made by importers/manufacturers. The achievement of Government's objectives for the DCS through FRCS is reliant on effective stakeholder engagement.
- 4.3.3 FRCS current approach to stakeholder engagement relies on direct communications with manufacturers in relation to a particular DCS application with information and what is on the FRCS website.
- 4.3.4 The operational effectiveness of management of the DCS requires comprehensive administrative arrangements. FRCS needs to manage its regulatory responsibilities and build importers/manufacturers and public confidence on DCS and monitor if benefits are passed down to consumers.
- 4.3.5 The development of a communications strategy for the DCS would help FRCS maximise the effectiveness of communications and awareness activities. Key features of the strategy could include:
- Assigning responsibility for promotional and awareness activities.
 - Identifying stakeholders for DCS
 - Determining communication needs and channels to reach DCS recipients
 - Adopting the most appropriate methods of communication.
- 4.3.6 Having a communications strategy in terms of general awareness and promotions if implemented simultaneously with enhancements to the information currently available on FRCS website, would help FRCS to better direct its limited resources to those activities that enable key stakeholders to effectively engage with FRCS.
- 4.3.7 An effective stakeholder engagement by FRCS particularly with the local manufacturers and importer will lead to efficient and effective operation of the DCS which is reliant on the

²⁹ FRCS Strategic Plan 2017-2020- Strategic Focus Area 1: Partnership 1.1 and Nature And Scope of FRCS FRCS's Business

maintenance of good relationships with its stakeholders involved in the DCS, including importers and local manufacturers.

- 4.3.8 Apart from the budget consultation engagement, the FRCS has a full time public relation team that organize consultation and awareness throughout the year.
- 4.3.9 Moreover, the FRCS has engaged professional bodies such as Fiji Institute of Accountants, Customs Brokers Council, Fiji Bus Operator, Investment Fiji, Fiji Retailers Association etc. on various policies and topics administered by FRCS. Also, FRCS issues public circulars, talk tax and radio shows advocating policies and new developments. However, consultations conducted for DCS is minimal.

4.4 Complaints Management

- 4.4.1 Complaints are an important way for the management of an organisation to be accountable to the public, as well as providing valuable prompts to review organisational performance and the conduct of people that work within and for it.³⁰ A complaint is an “expression of dissatisfaction made to an organisation, regarding its product, service or the complaints handling process itself, where a response or resolution is explicitly or implicitly expected. An effective complaint handling system provides three key benefits to an organisation:

- It resolves issues raised by a person who is dissatisfied in a timely and cost-effective way;
- It provides information that can lead to improvements in service delivery; and
- Where complaints are handled properly, a good system can improve the reputation of an organisation and strengthen public confidence in an organisation’s administrative processes.³¹

As such, relevant details of all complaints received by an organisation should be properly recorded and dealt with in an equitable, objective and timely manner.

- 4.4.2 Performance issues which affects the stakeholders such as importers and manufacturers daily, could be identified by the FRCS through complaints received from concerned importers and manufacturers. Audit noted that there was no complaints register to receive and record complaints in Customs section- but it is managed as a whole organisation. Audit was informed that there were no complaints on DCS recorded for past 3 years.³²
- 4.4.3 Delays in referring complaints to Customs section affects the timely attendance and resolution of the issue affecting DCS recipients, applicants and also general public.

Recommendations

12. The FRCS should ensure that a communication strategy is put into place to:

- electronically disseminate relevant information to create awareness on DCS to all stakeholders;
- provide regular updates; and
- disseminate its complaints management process.

³⁰ <http://www.ombudsman.wa.gov.au/Publications/Documents/guidelines/Binder-Complaint-Handling.pdf>

³¹ <http://www.ombudsman.wa.gov.au/Publications/Documents/guidelines/Effective-handling-of-complaints-made-to-your-organisation.pdf>

³² As date of audit 05/02/18

5.0 MONITORING AND REPORTING

5.1 Monitoring

- 5.1.1 The concept of monitoring is widely perceived as a self-assessment process by the implementing organisation or having monitoring as a follow-up activity for assurance. Monitoring activities include collection of data, analysis of the information and experiences and drawing of conclusions. These are then recorded and reported together with recommendations for future actions including improvements and proposing new developments to enhance business processes.
- 5.1.2 Monitoring of the DCS is conducted via risk analysis and profiling, intelligence collection and data analysis, physical inspections and price surveillance reporting and of Tax Free Regions For FRCS, in monitoring improvements are identified to drive efficiency and effectiveness of the scheme. Other elements can also be captured is how the rationale of DCS are achieved in terms of generating multiplier effects, job creation, increased export, economic growth and lower prices for consumers and tourists.
- 5.1.3 Effective monitoring and reporting will improve the duty concession scheme processes and derive more benefits intended for the scheme.

5.2 Risk Analysis Process and Risk Profiling

- 5.2.1 Compliance challenges continue to exist. Compliance risk management methodologies have been initiated within FRCS processes with further work to be done in anticipation of self-assessment being implemented for all revenues. The challenge for FRCS lies in the timely dissemination over multiple channels of clearly articulated Tax Rules as well as Quality Practice Statements and Guidelines. The Intelligence-Led, Compliance-Based Risk Management model will ensure secure and safe trade and travel facilitation as well as the extended virtual border.³³
- 5.2.2 We noted the following issues:
- Currently periodical and timely review of the current practices on DCS is not carried out. SoPs for the Risk Assessment & Planning (RAP) team effective from 1 January 2017 is still in draft form and is yet to be finalised and formally adopted by FRCS. Risk profiling in Customs is currently done mainly on the border protection aspects and not abuse or misuse of DCS.
 - In addition, surveys or campaigns are not carried out to gauge the compliance of the traders who benefit from DCS.

Recommendation

13. FRCS should ensure that all documents including practice guidelines such as SoPs are finalised as soon as possible.

³³ FRCS Strategic Plan 2017-2020

5.3 Risk of misuse or abuse of DCS

- 5.3.1 FRCS has considered (identified through Internal Audit reports and risk register) the risk relating to the incorrect payment of customs duty and taxes at the border when the value of items imported are under declared and also by the misuse DCS through loss of revenue collected by FRCS.
- 5.3.2 The incorrect collection of border-related revenue is one of the factors identified from risk profiling. Lack of actions were noted for assessing abuse or misuse of DCS. Such abuses will reduce the duty on import thus it distorts the local market if there is a local manufacturer of that product which in turn may lead to loss of market share by Fijian businesses, reduced efficiency as imported items could be cheaper. This can drive local entrepreneurs out of business and result in loss of job opportunities which they created.
- 5.3.3 Currently, FRCS does ad-hoc investigations of probable abusers of DCS. There is no systematic approach developed for monitoring and checking successful applicants of DC for abuse and misuse. Detection of abuse and misuse of DC will result in recovery of revenue foregone.

Recommendations

14. FRCS should ensure that:
- surveys and campaigns to check on compliance of traders and importers who are granted DCS are regularly carried out; and
 - the economic risk in terms of any misuse of DCS is adequately assessed to identify whether benefits are in fact passed down to customers.

5.4 Intelligence collection and data analysis

- 5.4.1 Compliance challenges continue to exist. Compliance risk management methodologies have been initiated within FRCS processes with further work to be done in anticipation of self-assessment being implemented for all revenues. The challenge for FRCS lies in the timely dissemination over multiple channels of clearly -Led, Compliant articulated Tax Rules as well as Quality Practice Statements and Guidelines. The Intelligence ce-Based Risk Management model will ensure secure and safe trade and travel facilitation as well as the extended virtual border.³⁴

- 5.4.2 We noted that data collected in FRCS is analyzed on an ad-hoc basis only. FRCS should have had developed procedural documents to guide its compliance activities, including manuals, instructions and guidelines, and process flow charts.

These documents should be tailored and provide descriptions of the requirements of each activity, their purpose, the responsibilities of managers and compliance officers, and how to conduct and record relevant information against each activity listed.

- 5.4.3 FRCS should develop approaches to engage with importers and manufacturers. Reinforcing its engagement with DCS stakeholders such as local manufacturers and importers could also result in better intelligence regarding the use of DCS; understanding of the factors that influence their misuse of DCS and understanding knowledge of the methods employed by importers/manufacturers to avoid detection.

³⁴ FRCS Strategic Plan 2017-2020

- 5.4.4 FRCS should identify:
- number of abnormal and normal behaviours of DCS beneficiaries (to detect con-compliance).
 - factors influencing customs agent behaviours;
 - exposure and degree of modifying items descriptions, where the importer deliberately;
 - misrepresented the goods to claim a DC for which it would otherwise be ineligible.
- 5.4.5 FRCS was under restructure and its working on strengthening monitoring and enforcement unit responsible for monitoring concessions.

Recommendation

- 15. FRCS should ensure that a program is developed to identify customs data to profile abusers of DCS. It can also be used to identify whether multiplier effects are created by recipients of DCS.**

5.5 No segregation of duties

- 5.5.1 A fundamental element of internal control is the segregation of certain key duties. The basic idea underlying SOD is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. In general, the principal incompatible duties to be segregated are:

- Authorization or approval of related transactions affecting those assets.
- Recording or reporting of related transactions.
- Custody of assets

Traditional systems of internal control rely on assigning certain responsibilities to different individuals or segregating incompatible functions. Segregation of duties is to prevent one person from having both access to assets and responsibility for maintaining the accountability of those assets.³⁵

- 5.5.2 We noted that the Tariff and Trade Section approves Code 231 and 236 which is linked in ASYCUDA World system whereby the system picks Duty Concession on the customs duty charges. All the other codes have been assigned to Long room for linking to ASYCUDA World system. Long room is involved in part with process of charging customs duty. Approving and linking has been assigned to Senior Customs Officers.
- 5.5.3 It was noted that there is a high risk of collusion and undercharging of duty as this also has been identified in the Internal Audit reports and FRCS risk register in terms of the officers charge duty and also forego duty.
- 5.5.4 Lack of segregation of duties can lead to staff colluding and undercharging the revenue to be collected as Duty Concessions.

Recommendation

- 16. FRCS should ensure that an independent officer is appointed to approve linking and ensure integrity of process in terms of transparency and accountability is maintained and reviews every aspect of the DCS.**

³⁵ Internal audit 2009 Simplifying Segregation

5.6 Constitutional and budget announcement obligations

- 5.6.1 Section 139(1) clearly states that the raising by the government of revenue and moneys whether through the imposition of taxation or otherwise must be authorised by or under written law.³⁶
- 5.6.2 In addition section (3) clearly outlines that if any law permits the waiver or variation of any tax fee a record of each waiver or variation must be maintained together with the reason for it and each waiver or variation and the reason for it must be reported to the Auditor-General.
- 5.6.3 We noted that the record of waiver or variation has been maintained in a register together with the reasons for the variations. These are properly documented and properly maintained.
- 5.6.4 It was noted that although record was properly maintained, FRCS did not comply with section 139(3) (b) where waivers or variations were not reported to the Auditor-General until it was formally raised.
- 5.6.5 Furthermore, it was stated in the 2015 Budget Summary and Budget Supplement that a committee will be established to assess and make recommendations on Customs Tariff Section 10 applications if it is outside the ambit of Concession Codes or Standing Section 10 approvals.³⁷
- 5.6.6 During the course of the audit it was noted that such a Committee is yet to be established. We were informed that the committee was formed only for a short period and was no longer in existence. Report on the work of the committee when it was set-up was not provided for audit review.
- 5.6.7 Non-compliance to the requirements of Constitution and budget statements are considered to be serious anomalies.
- 5.6.8 The FRCS's Technical Interpretation & Procedures Unit and Legal Unit have deliberated on how the requirements of Section 139(3) of the Constitution was to be implemented. FRCS has developed a SoP which is on draft stage which has to incorporate the template on how the requirements of the Constitution will be reported. This yet to be finalised and is awaiting FRCS Executive Management approval.

Recommendation

- 17. FRCS should ensure that any waiver of customs duty and taxes is reported to Auditor- General on a timely manner.

5.7 Monitoring Strategy

- 5.7.1 Results should be guided by and balanced by the interest of all stakeholders. The use of a balanced set of performance measures offers an effective means to monitor actual performance, and to marshal support for improving results.³⁸

³⁶ Customs and Tariff Act Revised 2010 section 139

³⁷ Budget of Fiji 2015

³⁸ FRCS Strategic Plan 2017 - 2020

- 5.7.2 Monitoring provides a means for ensuring that implementation goes according to plan. Similarly evaluation enables the determination of whether the projects have fulfilled their objectives or not. Monitoring and evaluation are therefore essential elements for any process.
- 5.7.3 Effective monitoring is reinforced by policies and procedures that present a framework for government agencies to ensure that financial and operational performance of the work is measured against established targets. Monitoring should be conducted in a consistent manner.
- 5.7.4 A monitoring taskforce will be formed and set to monitor the trickle-down effect of benefits of duty concessions to consumers as announced in the 2014 National Budget has been activated and retailers can expect spot checks.³⁹
- 5.7.5 We noted that an undated and signed Memorandum of Understanding (MoU) has been made between Fiji Commerce Commission (Fijian Competition and Consumer Commission) and FRCS. The MoU outlines the roles and responsibilities of the respective parties.
- 5.7.6 Audit gathered that although MoUs were drawn between the Commerce Commission and FRCS, reports were yet to be submitted to FRCS. Review of Internal Audit reports and discussions with responsible officers revealed that monitoring of the effectiveness of DCS in terms of increased exports, multiplier effects and decreased prices to consumers is not being carried out.
- 5.7.7 The absence of a well-documented monitoring strategy and non-adherence to the MoU indicate need to ensure proper accountability in the management of DCS.

Recommendation

- 18. FRCS should ensure that continuous monitoring is carried out as per required MoU and also to establish the benefits of DC passed to consumers. FRCS should also gather information on increased in exports and economical multiplier effect of the Duty concessions granted.**

5.8 Reporting of Price surveillance progress report and the Tax Free Region monitoring

- 5.8.1 Price Surveillance/Price Monitoring means surveying and investigating prices of goods that have been accorded duty concession by the Fiji Government.⁴⁰
- 5.8.2 Effective management of price surveillance activities depends upon access to accurate, timely and useful information pertaining to price surveillance. Refer exhibit 5.1 for an extract from the MOU between Fiji Competition and Consumer Commission and FRCS.

³⁹ DC Taskforce to Conduct Spot Checks- Fiji Government Portal

⁴⁰ MOU between FCCC and FRCS

Exhibit 5.1: Extraction from MOU between FCCC and FRCS**Price Surveillance/Price Monitoring**

In the 2014 National Budget, the Prime Minister announced that Government would establish an Inter-Agency Taskforce to monitor and examine the prices of goods/commodities that have been granted duty concessions via the National Budget. The Taskforce would include senior representatives from the Ministry of Finance, Ministry of Industry and Trade and the Fiji Revenue and Customs Service.

The whole purpose of this exercise is to survey the prices of duty concession goods and ensure businesses pass on the benefits of concessions to consumers, by lowering commodity prices. Recent assessments suggest that this transition has not been occurring with prices of some commodities continuously rising over the years despite the existence of concessions.

Government has reduced tariff rates to make specific goods affordable to ordinary citizens and also address key policy issues such as making basic food items affordable to low-income families, reducing the high cost of raw materials for domestic industries and ensuring better access to affordable medical products.

The price surveillance exercise will study the price trends of duty concession goods and ensure these are maintained at reasonable levels which reflect the impact of Government's tariff policies. These enterprises that are found to be violating this objective will be subjected to heavy penalties.

- 5.8.3 A robust internal reporting framework to assess the progress of the surveillance program and activities was not provided for our review. We noted that the price surveillance program did not generate progress reports which were supposed to be done on a quarterly basis. These include site inspection reports and price surveillances carried out by FRCS both pre and post the national budget. The dates on which price surveillance was carried out were as follows:

Table 5.8: Price surveillance dates and reports

Dates of surveillance	Report available
15 th June 2017	Not provided to OAG
27 th June 2017	Not provided to OAG
3 rd July 2017	Not provided to OAG
13 th July 2017	Not provided to OAG
31 st July 2017	Not provided to OAG

- 5.8.4 Findings in a surveillance report dated 21 September 2017 indicated that cases identified for non-compliance will be referred to the Investigation Unit. It was also stated that the verification process is being undertaken by the team as some retailers were using pre-budget stocks and monitoring of the imports with the import data. However, the number of cases investigated against businesses was not provided to audit.
- 5.8.5 It was noted that currently the data is captured in a spread sheet for prices pre-budget and post budget to determine if benefits have really been passed down to the consumers and general public.
- 5.8.6 Our audit noted that the Price Surveillance Progress report needs to be done consistently. Lapse in monitoring and reporting from 2014 to 2017 would mean, FRCS would not be able to determine if the duty concession provided to importers were passed to the consumers if proper monitoring is not done.

- 5.8.7 Lack of monitoring would also defeat the rationale of giving duty concessions to traders and importers. Reports should be done for each inspection to ensure that issues are covered adequately. Such external reporting structures assist in providing transparency to the accountability process. In addition the audit team also requested for Tax Free Region (TFR) monitoring reports which was also not provided for our review.
- 5.8.8 Monitoring reports for the TFR were not prepared and Price Surveillance reports submitted to audit did not provide details on the number and names of companies implicated. Instead, general statements were made on observations made.
- 5.8.9 FRCS has advised that it has been undertaking Price Surveillance works from June 2017 in order to monitor the concessions reflected in the prices of the commodities. The surveillance works are carried out on a monthly basis and the frequency of the surveys have been increased by inspection teams. Since the prices are recorded in a database and regular monitoring was undertaken on each commodity and vendor, where non-compliance was identified they were penalised.
- 5.8.10 We have also been informed that, FRCS was working to carry out an intensive monitoring operation which will include a site inspection and progress reporting for companies receiving duty concession under TFR scheme. FRCS has completed Company profiling's whereby it would include matching their imports with their actual project. FRCS has also made a submission to the Minister for Economy whereby they can take retrospective action on companies who have not complied with their TFR licenses. This submission has been approved and certain conditions have been stipulated in the law by amendments made in 2016.

Recommendation

19. FRCS should ensure that TFRs are inspected and monitoring reports are prepared and submitted for review when required.

6.0 GLOSSARY

Term	Definition
Appeal	Is to request for reconsideration the decision initially made on application submitted.
ASYCUDA WORLD	Computerised system for customs data
Concession	reduction of charges or amount to duty
Harmonised System	6 digit code for international classification of product (import/export)
Linking	aligning the item to HS Code for duty concession
Objection	An expression of feeling of disapproval or opposition or a reason for disagreeing to concession granted.
Revocation	An official cancelation of the decree or any line of the Act
Section 10	Section 10 of the Customs Tariff Act which requires for the Ministers approval for duty concession.
Trim	Reducing or making the applications brief.
Vet	To check or inspect the applications submitted

7.0 REFERENCES

1. India's Duty Free Tariff Preference Scheme for LDCs, 2015.
2. The Auditor-General ANAO Report No.20 2014-2015, Performance Audit.

APPENDIX 1.1: HARMONISED SYSTEM CODE SPECIFICATION

Code Number	Specifications
LIST OF GOODS ELIGIBLE FOR CONCESSION	
102	Family planning goods
104	Infants: foods: milk substitutes
106	Life-saving appliances
107	Fire engines and fire-fighting equipment
108	Trade Samples
110	Goods imported for disabled persons
111	Artificial parts of the body: corrective spectacles. Invalid carriages. Etc.
113	Equipment and requisites for games and sports
115	Vessels
117	I. Shaped or assembled textile fabrics II. Knitted fabrics and industrial diesel oil
122	Goods produced or manufactured in a Forum Island country or any other country approved by the Minister.
123	Breakfast food
124	Laboratory and pharmaceutical ware and hygiene or sanitary articles of plastic
126	Issued currencies etc.
127	Motor spirit for blending outboard fuel
128	Kerosene for household use
129	Liquid Petroleum Gas (LPG). Compressed Natural Gas (CNG) and Solar powered motor vehicles
130	Auto Rickshaw (Tuk Tuk) Three Wheel Vehicles
131	Quad Bikes (new)
132	Special kits for health promotion programs (as approval by the Comptroller) except posters and advertising material
133	Neoprene diving boots
134	Vinyl sheet piling
135	Hybrid accumulators (batteries or hybrid battery cells)
LIST OF PERSONS OR BODIES ELIGIBLE FOR CONCESSION	
201A	The President and his family
201B	The Vice President
203	Deleted
204	An international organisation to which the provision of Section 2 of the Diplomatic Privileges and Immunities Act apply
205	Members of a State, organisation or an agency
206	Consulates
207	Consular Officers
210	A consignee of goods listed in Annexes A, B, C, D and E of the June 1950 Agreement approved by UNESCO
212	A private individual
213	The concessionaire, at an approved airport
213A	Licensed Duty Free Operators at an Export Warehouse
215	Registered Charitable Organisations
216	The Owner, temporary owner or trustees of goods of a deceased Fiji resident
217	An international or local air service: an aerial survey enterprise for the Fiji Government
219	Passengers disembarking in Fiji
220	Fiji residents
221	A shipping company
222	A Hospital or Medical institution
223	A University, School or other institution
228	Tourists
230	The Fiji Red Cross Society

231	Packaging materials for a Producer or manufacturer
232	The importer of goods to which Section 10 of the Customs Tariff Act would apply
235	Hotels and Resorts
236	A manufacturer approved by the Minister
237	Cable and Wireless or any other similar body approved by the Minister
238	Approved organisations (ambulance)
239	Super Yacht Operator
241	Bus operators excluding mini bus operators
242	Companies involved in or with Logging Industry
243	Companies and individuals involved or with Sugar Cane Industry
244	Companies or entities granted approval under New Short Life Investment Scheme
245	Companies or entities involved in Inter-Island Shipping
246	Companies or entities involve in Fishing Industry
247	Companies or entities involved in Prawn Industry
248	Companies or entities involved in Pearl Industry
249	Approved operators engaged in 100% export
250	An approved body or organisation
251	An approved body or organisation
252	Companies or entities involved in New Mining Industry
253	Companies or entities involved in Ship or Boat Building Industry
254	Companies or entities involved in Coachwork Building
255	Entities involved in Floriculture
256	Companies, entities and educational institutions
257	Companies or entities involved in Hydroponic House Farming
258	Individuals and organisation
260	Approved companies engaged in repacking of powdered milk
261	Approved companies involved in ICT/BOP operation
262	Approved companies involved in the production of Bio-Diesel and Ethanol
263	Companies or entities involved in importation f Energy Conservation Goods
264	Companies or entities involved in importation of Renewable Energy Goods
265	Companies or entities
266	Companied or entities involved in the importation of rice
267	Companies or entities involved in the importation of portable and refined cooking oil
268	Companies or entities involved in Beekeeping Industry
269	Companies or entities involved in Pea Processing Industry
270	Approved Companies
271	Companies or entities
272	Companies, entities, organizations or individuals
273	Companies or entities
274	Approved manufactures located outside Viti Levu
275	Companies and entities involved in manufacturing of noodles
276	Companies and entities involved in canning and pouch packing of fish
277	Companies and entities involved in film productions
278	Companies and entities involved in processing of semi-finished products for further processing, products imported in bulk for packaging and other goods for assembly
279	Licensed Telecommunications Service Providers
280	Shooting Association of Fiji
281	Aquaculture Industry
282	International sports tournaments
283	International meeting, conventions and exhibitions
284	Companies or entities engaged in approved Government Projects
285	Government Ministries
286	Sugar Research Institute of Fiji
287	Approved Taxi operators
288	Approved Bus Operators
289	Sporting organisations and or affiliations
290	Approved companies under Income Tax (Tax Free Region Incentives) Regulations 2016
291	Approved companies or entities

292	Approved companies under the Income Tax (Medical Investment Incentive) Regulations 2016
293	Approved companies under the Income Tax (Residential Housing Development Package) Regulations 2016.
CONCESSION APPLICABLE TO PARTICULAR EXPORTED GOODS	
301	Sugar

APPENDIX 1.2: ABSENCE OF RELEVANT DOCUMENT

Approval date	Importer/ Manufacturer	Commodities Imported	HS Codes Categories	Description of Imports	Inspection report done/available	ABC Form available
7.3.16	Company M	<ul style="list-style-type: none"> Greenhouse ventilation shutters parts Green house Film Grain Sacks 	Code 257 under Part 3 of the Act	Importing of agricultural items	None attached	None attached
7.3.16	Company N	<ul style="list-style-type: none"> Green House Square Pipe Green House Pipe Green House Film Green House Pins, clips, valves, fittings clamos Green House Center Support Bearn Green house under 	Under Item 4 of the Standing Section 10	Importing of Greenhouse Items for agricultural purposes	None attached	None attached
5.4.2017	Company O	<ul style="list-style-type: none"> Green house building material Rice Milling Part 	257 of part 3 of the Act	Importing Greenhouse Material and Rice Milling Parts	None attached	Attached
24/05/17	Company P	<ul style="list-style-type: none"> Cassava Peeling Machine Expended perlite 	Under Item 4 of the Standing Section 10	Importing Cassava peeling machine and Expended perlite	None attached	Attached
19.09.16	Company Q	Life raft saving Items	106 part 2	Importing Life raft saving goods for purpose of resale	None attached	None attached
28/03/17	Company R	Coffee bean flavour	263(i) Part 3 of the schedule	Importing Coffee bean flavor for coffee production	Attached	None attached
10.02.14	Company S	Carbonated soft drinks, fruit juices and other consumer goods	section 10 - 232	Importing carbonated soft drinks and fruit juice ingredients and manufacturing equipment for production of Carbonated drinks and fruit juice	None attached	None attached
08.03.12	Company T	Room Amnesties and Kitchen Equipment for upgrade of the	235 part 3	Room Amnesties and Kitchen Equipment for upgrade of the resorts - as	None attached	None attached

Approval date	Importer/ Manufacturer	Commodities Imported	HS Codes Categories	Description of Imports	Inspection report done/available	ABC Form available
		resorts - as per the list of goods to be imported.		per the list of goods to be imported.		
12.10.16	Company U	Material for the construction of resort and the Golf course	232 -section 10 and 235	Material for the construction of resort and the Golf course	None attached	None attached
07.07.15	Company V	Residential project materials and equipment's	233 -section 10 and 235	Residential project materials and equipment's	None attached	None attached
27/04/17	Company W	Material for the construction of resort and the Golf course	232 -section 10 and 235	Material for the construction of resort and the Golf course	None attached	None attached

APPENDIX 1.3: DCS APPLICATIONS THAT DID NOT COMPLY WITH THE SOP

Date	Importer/ Manufacturer	Commodities Imported	HS Codes Categories	Description of Imports	Audit Findings
5.4.17	Company A	Coffee Bean Flavor	236(i) Part 3 of the Schedule	Importing Coffee Bean flavor for coffee production	Absence of the OIC Tariff and Trade shall assigning an officer to send Forms A, B, and C to the applicant.
28.3.17	Company B	Packaging Material	Company A 231 Part 3	Importing of packaging material to pack coffee final product.	Absence of – the OIC Tariff and Trade shall assign an officer to send Forms a, B and C to the applicant.
11.4.17	Company C	Room Amnesties and Kitchen Equipment for upgrade of the resorts – as per the list of goods to be imported.	235 Part 3	Room Amnesties and Kitchen Equipment for upgrade of the resorts – as per the list of goods to be imported.	<ul style="list-style-type: none"> • Absence of – the MTT vet and endorse comments before the application is forwarded to PCO/OIC Tariff and Trade; • Absence of the – OIC/PCO assign an officer to send Forms A, B and C to the applicant. • Absence of – the OIC/PCO Tariff and Trade endorse comment on the inspection report and forward to CCO; • Absence of – The CCO endorse comments on the inspection report and forward to DDR for endorsement; • Absence of the – DDR shall endorse/reject the inspection report and forward to MTT; • Absence of – the MTT shall endorse comments on the inspection report and forwarded to OIC/PCO to draft the reply to the applicant;
8.3.12	Company D	Woven & Knitted fabric, buttons, zipper, thread, elastic, garment accessories. Locally purchased cartons.	236, 117 (1), 117 (1)	Importing of woven and knitted fabric, buttons, zipper, thread, elastic, garment accessories. Locally purchased cartons.	Absence of – the OIC/PCO shall endorse comments on the inspection report and Company E forward to MTT;

Date	Importer/ Manufacturer	Commodities Imported	HS Codes Categories	Description of Imports	Audit Findings
1.7.10	Company F	6 Rolls of 100% Polyester Rugby Knit 290 gsm Black.	117 (ii) part II	Importing of 6 Rolls of 100% Polyester Rugby Knit 290 gsm Black.	<ul style="list-style-type: none"> • Absence of the OIC Tariff and Trade shall assign an officer to send Forms A, B and C to the applicant. • Absence of – the OIC/PCO Tariff and Trade shall endorse comments on the inspection report and forward to CCO; • Absence of, the CCO endorse comments on the inspection report and forward to DDR for endorsement; • Absence of – DDR shall endorse/reject the inspection report and forward to CCO. • Absence of – CCO shall endorse comments on the inspection report and forwarded to OIC/PCO Tariff and Trade to draft the reply to the applicant.

APPENDIX 1.4: RESPONSE FROM ENTITY

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File: 576/2441

17 May 2018

Mr Visvanath Das
The Chief Executive Officer
Fiji Revenue and Customs Services
Nasease Complex
NASESE.

Dear Mr Dass

AUDIT OF DUTY CONCESSION SCHEME

Attached is the draft report on audit of Duty Concession Scheme which I intend to submit to the Honorable Minister for Economy for tabling in Parliament. You will note that comments received has already been incorporated in the report where appropriate.

The draft report is submitted for your information and comments (if any) which we expect to receive by 25 May 2018. Comments provided would be included in an appendix to the report. Therefore, we will be grateful if any further comments are limited to 500 words.

We trust that you will keep the contents of the report confidential.

Yours sincerely

Ajay Nand
AUDITOR-GENERAL

Encl.



Please address all correspondence to the Chief Executive Officer

25th May, 2018

Mr. Ajay Nand
Office of the Auditor General
P. O. Box 2214
Government Building
SUVA

Dear Mr. Nand

RE : AUDIT OF DUTY CONCESSION SCHEME

We refer to your letter dated 17th May, 2018 with the draft submission report on the audit of the duty concession scheme. Fiji Revenue & Customs Service (FRCS) has kindly reviewed the draft and wish to add the following to the draft report-

1. That introductory Clause 1.1.2 be amended to include that FRCS under the reform initiative is divided into 7 major division consisting of Revenue Management, Border Force, Corporate Service, People Capability and Culture, Stakeholder Engagement and International Relations, Intelligence, Compliance and Investigation, Information and Technology.
2. That Clause 1.1.4 shall include Customs Act, Customs Tariff Act, Excise Act and Customs Prohibited Import and Export Regulations.
3. FRCS has already commenced on the legislative review process on all Customs legislation. This will require extensive consultation with relevant stakeholders and expertise from New Zealand Customs on technical assistance.
4. As for the proper strategic directions, processing and accountability of the duty concession provisions, the Tariff and Trade duty concession functions are now been shifted to the Policy, Research and Analysis section for in-depth research and analysis for duty concession.

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5. The review of all Standard Operating Procedures (SOP) pertaining to administration of duty concession is still a work in progress with specific timelines. The CEO's office had earlier given a directive that all the practice statements on each individual concession code under the Customs Tariff to be developed in order to bring consistency in application by business. The policy team will also develop a checklist for specific duty concession ensuring all required documents are submitted before processing.
6. The Service has established a new committee which will look into the technical affairs of all internal and external Harmonized Commodity Description and Coding System (HS), Customs Valuation and other Customs appeals.
7. The Revenue Management team also re-structured the revenue team in order to carry out proper monitoring, risk assessment and profiling of traders who abuses the duty concessions.
8. The penalty and fine provisions under the Customs laws have been reviewed in the last budget where the maximum penalty stands at \$25,000.00 or ten years of imprisonment for breaches under the Customs laws.
9. As per Clause 5.7 on the Tax Free Zone (TFZ) monitoring, FRCS wish to advise that Scheme for TFZ is no longer existence in the Customs Tariff, wherein these manufactures are accommodated under concession code 231 and 236 to Part 3 of the Customs Tariff.
10. The price surveillance and monitoring is currently undertaking price monitoring every month to ensure that duty reduction is effectively reflected on the goods shelved in the market. FRCS has also issued Customs Infringement Notice (CIN) to companies for such breaches.

We certainly hope that the above comments will assist you in reviewing the draft and finalization of the report.

Yours faithfully



[Visvanath Das]

CHIEF EXECUTIVE OFFICER

SECTION 2: MANAGEMENT OF PRISONERS, EMPLOYEES, AND ASSETS MANAGEMENT SYSTEM



FIJI CORRECTIONS SERVICES

Acronyms

BOI	Board of Inquiry
COMCOR	Commissioner Fiji Corrections Services
CTN	Contract Number
DCOMCOR	Deputy Commissioner Fiji Corrections Services
EM	Evaluation Meetings
FCS	Fiji Corrections Services
FJD	Fiji Dollar
FMIS	Financial Management Information System
FPO	Fiji Procurement Office
HOD	Head of Department
HR	Human Resources
IT	Information Technology
ITC	Information Technology and Communication
LPO	Local Purchase Order
MSA	Master Service Agreement
PEAMS (or EPAMS)	Prisoners, Employees & Asset Management Systems (Employee, Prisoners & Asset Management Systems)
PSIP	Public Sector Investment Programme
PS	Permanent Secretary
RFP	Request for Procurement
RFT	Request for Tender
RS	Requirements Specification
UAT	User Acceptance Testing
UI	User Interface
VAT	Value Added Tax
VIP	VAT Inclusive Price

Audit Overview

The Prisoners, Employees and Assets Management System (PEAMS) is a web application developed by a local company (supplier) in 2011 for use by Fiji Corrections Service (FCS). The PEAMS was expected to improve data collection, storage, processing and information of prisoners, employees and assets system. However as at 2016, the system was not used by the Department as intended prompting the conduct of a Board of Inquiry. In 2017, the Commissioner Fiji Corrections Services (COMCOR) requested an audit into the probity of the procurement of the PEAMS.

Conclusion

Planning for the procurement of the Prisoner, Employee and Assets Management System (PEAMS) was properly conducted as evaluations of bids and the awarding of tender were done in an open, transparent and accountable manner. However, planning for funding of the project could have been improved.

We were not able to conclude on the adequacy of planning for the system requirements due to unavailability of documentation to support expectations of the FCS and its endorsement of requirements specifications provided by the supplier.

In the absence of reports or related documentation, we could not also assess the adequacy of development and implementation of the PEAM system. Management of delivery of PEAMS was not effectively conducted as the PEAMS has still not been rolled out and fully utilised by the FCS.

The shelving of the use of the Swallowtail software developed to run PEAMS and the re-assignment of duties of personnel are indicative of lack of confidence in the development of the system by current FCS management.

PEAMS has not been utilised to its full potential as it does not contain relevant data. The capabilities of the system can be fully determined when high quality, accurate and complete data has been input into the system.

FCS needs to give consideration to take appropriate action against staffs who were responsible for record-keeping and successful implementation of the PEAMS Project.

What we audited

Our audit focused on the planning for procurement of the PEAMS, the management of implementation of the Master Service Agreement (Software Development Services for Prisoner, Employee and Asset Database), also referred to as the Swallowtail Contract, between the Fiji Corrections Services and the supplier dated 19th August 2011 and related transactions pertaining to the procurement of PEAMS. It also looks at the effectiveness of use of the PEAMS.

Our key findings

Planning for acquisition of the Prisoners, Employee and Assets Database

- Planning for the procurement of the PEAMS was properly done.
- Whether Requirements Specification (RS) were met and sign-offs by the FCS were done, could not be determined as RS and minutes of meetings were not provided for audit scrutiny.

Managing development, integration and implementation of PEAMS

- Records were not provided to support systems development and integration delivery.
- Records were also not provided to confirm system user acceptance testing, bug fixes and implementation.
- A Steering Committee was not set up for project management.
- There was lack of evidence to support monitoring of progress of work against the scope.
- The project was not completed within the stipulated timelines.
- Payment vouchers and source documents to support payments made for the five phases of the project were also not provided for audit review.

Effectiveness of PEAMS

- PEAMS is not being effectively utilised.
- The lack of knowledgeable users of the system was evident.

Our recommendations

FCS should:

- continue to improve its record management systems and processes so that critical records can be easily retrieved when required for audit and other purposes.
- consider instigating appropriate action against staffs who were responsible for PEAMS Project so that it acts as a deterrent.
- ensure proper budgetary funding is obtained for all major projects in future.
- consider input of high quality, accurate and complete data into the respective modules of PEAMS. This can be achieved by:
 - ✓ cleansing existing data;
 - ✓ putting into place data input controls; and
 - ✓ engaging dedicated personnel to assist in data input.

Once relevant data has been input into the system, necessary checks can be carried out to re-confirm the quality of data before it is used for information or decision-making.

- seek additional funding from the budgetary process to fully utilise the PEAMS, if required.
- consult ITC Services for advice on how the technical requirements of PEAMS can be fully addressed.

Reference to comments

A full copy of this report with request for comments was sent to Fiji Corrections Services however no further comments were received.

Copy of letter sent and response is in Appendix 2.2

1.0 INTRODUCTION

- 1.0.1 In 2010, the Management of the Fiji Corrections Services (FCS) decided to prioritize the implementation of systems that would improve data processing and information management.
- 1.0.2 At that time, most of the processes of FCS were done manually where data for prisoners, staff and assets were recorded in registers and/or MS-Excel spread sheets, with no automated reporting tool to process the data. Manual data processing caused delays in generating reports to enable timely decision-making which affected staff productivity and contributed to inefficiency in the FCS operations.
- 1.0.3 In realizing the need for the computerization of its administrative processes and information management, the FCS embarked on a project to develop a back-office function to capture and maintain information that is accurate, easily accessible, capable of generating timely reports, and which could also be accessed online.
- 1.0.4 The purpose of the project was to implement three systems pertaining to Prisoner or Offender's Information System, Human Resource (HR) Information System and Asset Management System. The systems were expected to improve data collection, storage, processing and information and Asset system to record all assets. The systems would then process the captured data to produce reports when required.
- 1.0.5 The project once successfully implemented and delivered would have a positive impact on the operations and service delivery of the FCS.
- 1.0.6 Through a Master Service Agreement (also referred to as the Swallowtail Contract) dated 19th August 2011, the FCS commissioned a local supplier for the provision of systems integration service which entailed the supply of the Employee, Prisoners and Assets Management system which is a suite of custom-built management information systems.
- 1.0.7 Although the Swallowtail application sits on the servers of FCS, it is not being utilised.

1.1 Reasons for our audit

- 1.1.1 Our audit was conducted in response to a request from the Commissioner Fiji Corrections Services (COMCOR) in 2017 to conduct a specific audit into the procurement of the data software under the Swallowtail Contract.
- 1.1.2 The request followed an internal Board of Inquiry (BOI) in January 2017 into the procurement of the Swallowtail software under the Swallowtail Agreement which was commissioned by the COMCOR.
- 1.1.3 The concerns of COMCOR arose from the substantial delays noted in receiving information requested of FCS staff, in spite of investing in a software that should have addressed the Department's information requirements.
- 1.1.4 In addition, concern was also raised on the lack of returns to government for the investment made in the procurement of the Swallowtail software.

2.0 AUDIT OBJECTIVE, SCOPE AND METHODOLOGY

2.1 The purpose of our audit

The overall objective of our audit was to assess whether the Swallowtail Contract was implemented with due regard to economy, efficiency and effectiveness by examining:

- (i) the planning for acquisition of the Prisoners, Employees and Assets Database System;
- (ii) the development and implementation of the Prisoners, Employees and Assets Database System; and
- (iii) Monitoring the implementation of the Prisoners, Employees and Assets Database System.

2.2 What we audited

Our audit focused on the implementation of requirements of the Master Service Agreement between the FCS and the supplier dated 19th August 2011 and related transactions pertaining to the procurement of the Swallowtail Software.

2.3 How we audited

Our audit was conducted using the following evidence gathering techniques:

- (i) Documentary Review.
- (ii) Questionnaire - Responses were sought from current staff as well as former staff (former IT Manager) through the issuance of questionnaires.
- (iii) Interviews - interviews were carried out with officers listed in Table 2.1

Table 2.1: Details of interviews conducted

Unit	Officer
Corporate Services	Assistant Commissioner Corporate Services
Logistics	Chief Logistics Officer
Information Technology	IT Manager
Accounts	Senior Accounts Officer
Information Technology	Corrections Officer, IT
	Corrections Officer, Rations

3.0 AUDIT CONTEXT

3.1 Procurement requirements

- 3.1.1 Tenders must be called for the procurement of goods, services, and works valued at \$30,001 and more⁴¹. All procuring agencies must set up a Tender Evaluation Committee to evaluate response to the Request for Tender (RFT) or Request for Procurement (RFP) which shall consist of the procuring agency as Chair and Secretariat; an official from Fiji Procurement Office (FPO); an official from the Ministry of Industry & Trade; and an official from any agency that has technical expertise or experience in that particular tender.
- 3.1.2 The evaluation shall be carried out in three stages namely administrative requirements, technical requirements, and cost analysis. Once evaluation is completed, all tender documentation including the evaluation reports must be submitted to FPO for processing of Board approval. These must be signed-off by the Permanent Secretary (PS)/Head of Department (HOD) of that particular procuring agency⁴².
- 3.1.3 The Suppliers warrants to Customer that supplier has the resources, capacity, rights licences and ability to provide the Services⁴³.

3.2 Tender evaluation and award

- 3.2.1 Tenders for the Contract for Database Application Project for FCS (reference CTN 116/2011) was closed on 23 February 2011. The date on which the Tender was called could not be determined as no records were available to confirm it. A total of seven bidders responded to the call for tender.
- 3.2.2 An Evaluation Committee was formed to deliberate on tender CTN 116/2011. The Chair and the Secretary of the Evaluation Committee were appointed from the Fiji Corrections Services and a technical consultant was provided by the Information Technology and Computing (ITC) Services. The members of the Evaluation Committee are listed in Table 3.1 below.

Table 3.1: Evaluation Committee composition

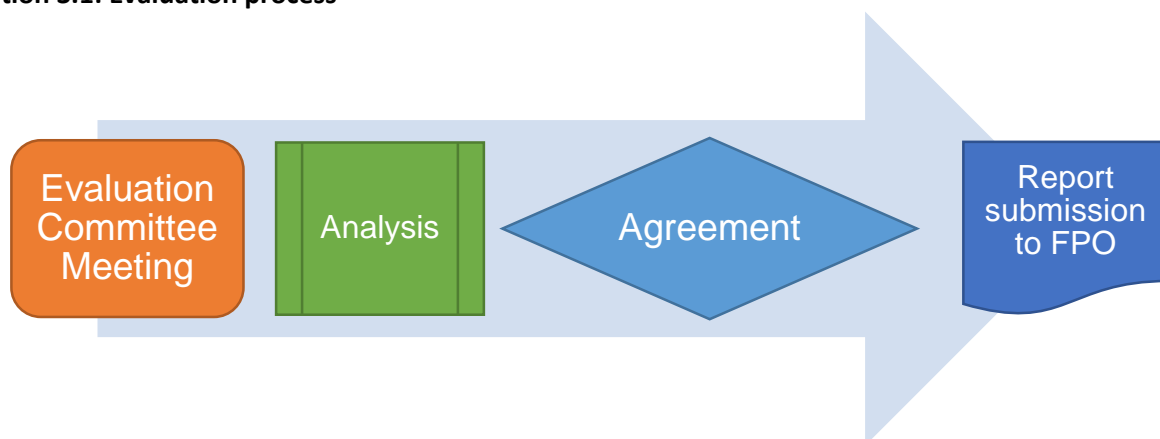
	Designation	Ministry
1	Chair	Fiji Corrections Services
2	Secretary	Fiji Corrections Services
3	Member	Ministry of Economy
4	Member	Ministry of Economy
5	Member	Ministry of Trade
6	Member	ITC Services

- 3.2.3 The evaluation process undertaken by the Evaluation Tender Committee in deliberating the tender is presented in Illustration 3.1 below.

⁴¹ Finance Circular 11/2010 s 3.1

⁴² Finance Circular 11/2010 Appendix 1 Evaluation Procedures

⁴³ Master Service Agreement s.6.1.(b)

Illustration 3.1: Evaluation process

- 3.2.4 The Tender for Contract for Database Application Project for FCS (reference CTN 116/2011) was deliberated by the Evaluation Committee over three Evaluation Meetings (EM).

At its first meeting on 14 March 2011, the Committee deliberated on the first two bidders and agreed to continue the evaluation at its next meeting scheduled for 29 March 2011. However, the Committee resolved at its meeting on 29 March 2011 that the Secretary to prepare all evaluation forms and fill evaluation tables and points for verification later. The ‘points evaluations’ were verified by the Committee at its third meeting on 27 April 2011.

- 3.2.5 The Committee evaluated tenders based on administrative, technical and cost composition aspects.

All seven bidders scored more than 50% in the administrative evaluation and were considered for the second stage of evaluations. Three bidders were dropped after the technical evaluations and the remaining four were shortlisted and evaluated for cost compositions.

Following discussions on costing, justifications and benefits of the four shortlisted companies, the Committee agreed to recommend a supplier. The Committee’s recommendation and details of the evaluation were submitted to the FPO on 3 May 2011.

- 3.2.6 The Government Tender Board in its meeting No. 12/2011 held on 24 May 2011 approved the engagement of the supplier to implement the Database Application Project at a total cost of \$118,000 inclusive of VAT.

- 3.2.7 Proper planning for the procurement ensured that the FCS identified and obtained services of the ideal supplier at reasonable costs. It also enabled the FCS to identify funding and allocate resources for the successful implementation of the PEAM system.

3.3 Requirements specification

- 3.3.1 The Customer will provide all necessary documentation, facts and figures, business processes and information required by the Supplier⁴⁴. Supplier is to take minutes of meetings which will be perused and agreed upon by the Customer and circulated to Project Team⁴⁵.

⁴⁴ Master Service Agreement s. 5.4

⁴⁵ Master Service Agreement s. 3.3

- 3.3.2 Our audit gathered from feedback provided by the former IT Manager that the FCS provided all the business rules, process flows and calculations, the User Interface (UI) design and the required functionalities and features to the supplier.
- 3.3.3 A Requirements Specification (RS) document was put together by the FCS and the suppliers for coding of the software. The RS documents and minutes of meetings provide an understanding of customer/ supplier expectations and provide a point of references against which actual supplier performances can be assessed.

However, we could not establish what the requirements of FCS were and whether these were all met by the supplier as the RS document as well as minutes of any meetings held between the two parties were not provided for audit verifications.

- 3.3.4 The unavailability of required documentation is indicative of poor records maintenance which adversely impacts organizational knowledge retention and hinders accountability.

FCS has explained that the Swallowtail programme was established to improve maintenance of records and systems in place in the Fiji Correction Services. The idea was brought about in view of appropriate storage of documents and missing information faced by the FCS.

When fully implemented, the PEAMS Project was expected to improve data collection, storage, processing and information of prisoners, employees and FCS assets. However, FCS has managed to achieve the following during the implementation of the project, which is viewed very positively:

- ✓ proper method of disposal of assets and inventory,
- ✓ digitization of data to improve the maintenance of manual recording of prisoners and FCS personnel data,
- ✓ strengthening of reporting and monitoring of achievements and performances,
- ✓ compiling of accurate data for management decision making,
- ✓ capacity building through skill training for staff to expand their knowledge and confidence.

Recommendations

20. FCS should continue to improve its record management systems and processes so that critical records can be easily retrieved when required for audit and other purposes.
21. Where possible, FCS should instigate appropriate action against staff who were responsible for PEAMS Project so that it acts as a deterrent.

3.4 Project funding

- 3.4.1 Proper management of expenditure is fundamental to ensuring value-for-money is obtained in the service delivery. As well as having cost effective internal controls within the purchasing and payments system, it also plays an important part in ensuring that waste of funds, over expenditures and corruption do not follow.⁴⁶
- All capital expenditure submission must be done through the Public Sector Investment Programme process.⁴⁷

⁴⁶ FCS Agency Finance Manual: Part 2 Expenditure

⁴⁷ Finance Instruction 2010: Part 2 s6(5)

- 3.4.2 In its Strategic Development Plan 2010 – 2014, the FCS had identified IT projects it planned to implement during the period. These included the development of a Human Resource Database, Prisoner's Database, LAN/WAN Networking, Computerization and Video conference programs.

It was envisaged that in 2010, a prisoners' database would be established for \$30,000, a local area network/wider area network developed for \$250,000 and the introduction of general computerization program for \$50,000.

It was planned that in 2011 a Human Resource Database for all officers would be established at a cost of \$30,000 to allow effective and efficient services to staff.

- 3.4.3 However, the Human Resource and Prisoners Database projects were not included in the Public Sector Investment Programme (PSIP) 2011 -2013. Thus, funds were not allocated in the 2011 Annual Budget to cater for the proposed projects.

Of the payments for the purchase of the database application under Tender CTN 16/2011, \$100,000 was met from funds provided in the 2011 Budget for the upgrade of Telecomm and CCTV Camera and the balance of \$18,000 was sourced from the Telecommunications and VAT allocation within the budgetary allocations.

- 3.4.4 The non-provision of funds in the 2011 budget reflects on a lack of foresight on the part of FCS management.

FCS has explained that it is carrying out proper reconciliations for various accounts held in the Government Accounting system (FMIS) and continuous reporting to management on the utilization of these accounts.

Recommendation

22. FCS should ensure proper budgetary funding is obtained for all major projects in future.

4.0 MANAGING DEVELOPMENT, INTEGRATION AND IMPLEMENTATION OF PEAMS

4.1 System Development and Integration Delivery

- 4.1.1 Supplier must provide the services to the Customer on the terms of this agreement including the terms set out in Schedule 1 (Terms of Supply).⁴⁸ During the term, the Customer may increase or decrease the usage of the services, and add or remove parts of the services, provided each change in the scope of work including any variations to the contracted price for services are discussed and agreed to by the parties ⁴⁹.
- 4.1.2 We could not establish what services were required of the supplier for the development of and integration of the PEAM system, and what services were actually provided by the supplier under Phase 3 of the Project since relevant records were not produced for audit scrutiny. The lack of records also inhibited us from determining the extent of work carried out compared to expected outcomes.
- 4.1.3 In addition, the payment records for the sum of \$17,700 paid on 30/12/2011 for completion of Phase 3 of the project were also not produced for audit.
- 4.1.4 The lack of documentation provided reflects poor records management and non-compliance with acceptable accounting practices. Poor records management also inhibits accountability for investments made by the FCS.

4.2 System User Acceptance Testing, Bug Fix and Implementation

- 4.2.1 The customer is to receive a progress report on all modules on a regular fortnightly basis. Supplier to take minutes of the meetings which will be perused and agreed upon by the customer and circulated to project team. The supplier and customer will agree on a testing and signoff procedure to be adopted for the provision of services under the Master Service Agreement.⁵⁰
- 4.2.2 Phase 4 of the Project required the provision of “After system User acceptance testing, bug fix and implementation”. A sum of \$23,600 was paid on 29 June 2012 for the completion of phase 4.
- 4.2.3 However, we could not establish what services were actually provided by the supplier for system user acceptance testing and bug fixes since fortnightly progress report or minutes of meetings held, as required under the Agreement, were not provided for audit verification. Lack of records also prevented us from determining that tests and bug fixes were actually conducted and implemented.
- 4.2.4 The lack of documentation again reflects on poor records management and non-compliance with acceptable accounting practices. The lack of audit trail also hinders accountability.

⁴⁸ Master Service Agreement – General Terms s.1.1

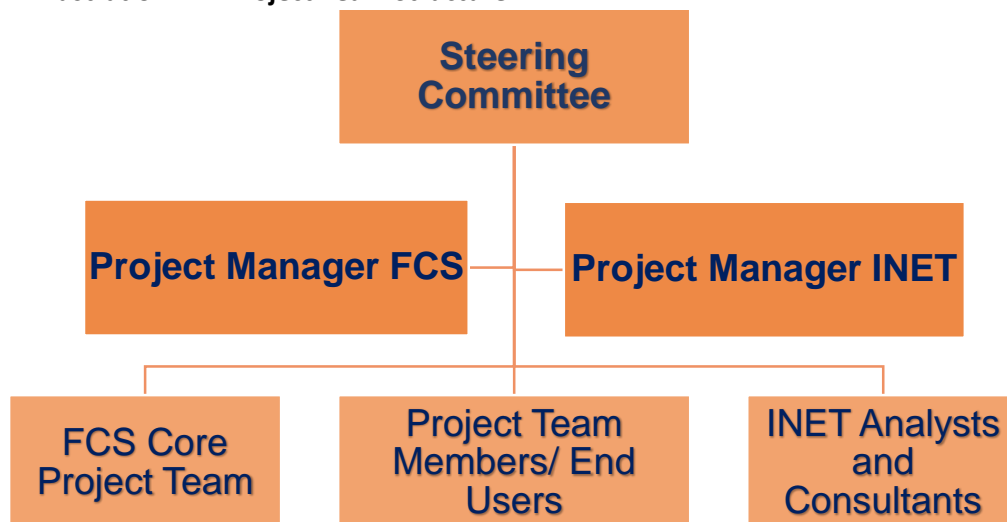
⁴⁹ Master Service Agreement Schedule 1 s. 1.2

⁵⁰ Master Service Agreement Schedule 4 – Testing and reporting

4.3 Project management

- 4.3.1 Both parties will provide Project Management and responsibility for the timely execution of all parts of the project based on the Scope of work required⁵¹
- 4.3.2 The Project Team set up as provided in Schedule 5 of the MSA is reflected in Illustration 4.1 below:

Illustration 4.1: Project Team Structure



Source: Master Service Agreement - Schedule 5

- 4.3.3 The Project Management Team is responsible for timely execution of the following activities:
- Set up project and project office
 - Conduct requirements analysis for the Employee, Prisoners and Assets Database System
 - Prepare a Requirement Specification document
 - Signoff Requirements Specification document
 - Order Software Licences
 - Development
 - System testing
 - Develop test scripts
 - User Acceptance testing
 - Signoff UAT
 - Develop System Administration and User Manuals
 - Training
 - Deployment in live environment.
- 4.3.4 However, we confirmed from interviews with the former IT Manager that the Steering Committee was not set-up and that the Project was managed overall by the FCS IT team whilst the Supplier managed development of the application software. The FCS IT team presented project updates to the Commissioner every Friday morning.
- 4.3.5 We were also informed that FCS senior management were also involved in the management of the project and contract by monitoring the progress of each phase to ensure compliance with the contract before proceeding to the next phase. Project reports and weekly updates

⁵¹ Master Service Agreement s.5.2 and Schedule 2 – Statement (Scope) of Work Required

were also done to ensure the timely execution of all parts of the project by FCS and Internet Fiji. However, copies of the reports and updated were not provided for our verifications.

- 4.3.6 In the absence of documentary evidence, we could not ascertain the progress of scopes of works implemented for each phase of the project, the satisfactory fulfilment of each phase of the project, and whether project implementation was monitored at all by senior management.

4.4 Timely delivery of PEAMS

- 4.4.1 The following table shows the Delivery Schedule for various parts of the project⁵².

Milestones	Delivery Date
Contract Signing	22.08.11
Requirements analysis signoff	30.08.11
Software Licences	15.09.11
Software Development	01.11.11
Systems testing, Bugfix	21.11.11
User Acceptance and Training	01.12.11
Rollout & Commissioning	15.12.11

- 4.4.2 The supplier in its tender proposal for providing software development services envisaged that it would take four months to execute the Project, subject to the timely provision on content⁵³.
- 4.4.3 However, we noted from payments made at the end of various phases of the Project, that the Project took longer than the anticipated delivery dates to complete. As at 31 December 2011, only the first three phases of the project were completed and for which payments had been made. The fourth phase was completed and paid on 29 June 2012, six months past the expected delivery date. However, reasons for the delays in implementation could not be confirmed due to the lack of documentation.

4.5 Payments

- 4.5.1 The fixed price for all works conducted shall be FJD\$118,000 inclusive of VAT and duty. The work specifications and payment structure should be included prior to execution of the Agreement. The supplier shall invoice Customer at the end of each item for works completed as per the following payment schedule⁵⁴. Refer Table 4.1 below for schedule of payments.

Table 4.1: Payment Schedule

Item	Invoice Value \$
At the contract signing (10%)	11,800.00
Requirements Specification sign off (40%)	47,200.00
After systems development and integration delivery (15%)	17,700.00
After systems user acceptance testing, Bug fix and implementation (20%)	23,600.00
Retainer at the end of Warranty period (15%)	17,700.00
TOTAL	\$118,000.00

Source: Master Service Agreement - Schedule 3: Service Charges: Cost and Payments Schedule

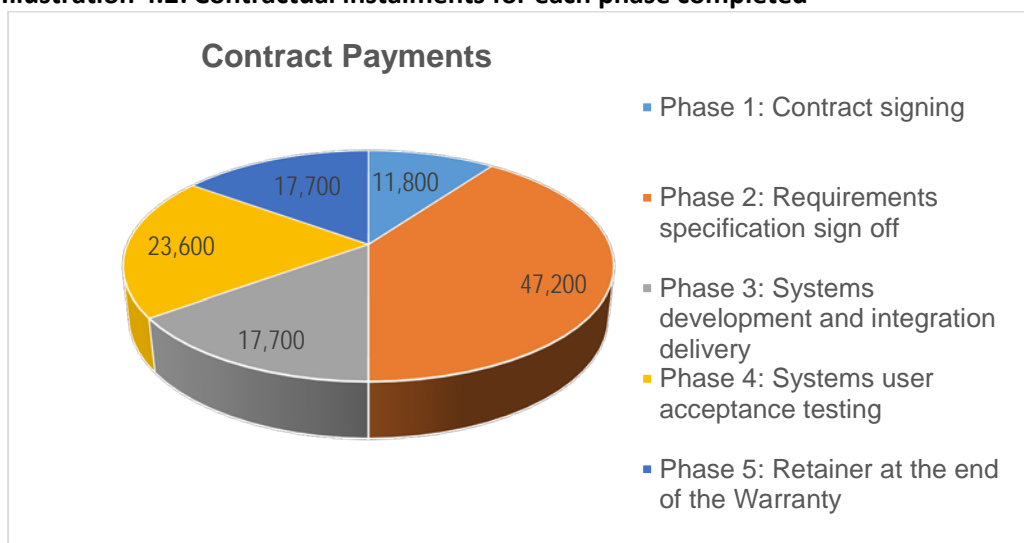
⁵² Master Service Agreement Schedule 6 – Delivery Schedule

⁵³ Internet Fiji, Prisons and Correctional Service-PEAM System and IT Infrastructure Project S 3.1 Para 6 Page 14

⁵⁴ Master Service Agreement Schedule 3 – Service Charges Costs and Payments Schedule

- 4.5.2 A sum of \$118,000 inclusive of VAT was paid in instalments following completion of each of the five phases of the project by the Supplier. Payments made are reflected in Illustration 4.2 below.

Illustration 4.2: Contractual instalments for each phase completed



- 4.5.3 From our review of the Department's records provided for payments made on cheques numbers 628259 of 5 October 2011 and 634851 of 30 December 2012, we noted deviations from required accounting procedures. For example, source documents such as local purchase orders (LPOs) issued, invoices received, and specific outputs/reports quoted to support payments were not attached to payment vouchers. Refer Table 4.2 below for details.

Table 4.2: Examples of source and supporting documents not sighted

Cheque No & date	Amount \$	Source document & Date	Deficiencies noted
627733 of 30/8/2011	11,800		Requested for audit in November 2017 but still not provided as at date of this report, 28/3/2018.
628259 of 5/10/2011	47,200	LPO 71999-001650 of 4/10/2011	Issued after services received and invoiced
		IN00045280 of 22/9/2011	Copy of invoice not attached with payment details.
		Requirement Specification	Signed Requirements Specifications delivered (as referred to in Minute addressed to DCCOR dated 28/9/2011) was not attached with payment details.
629745 of 30/12/2011	17,700		Requested for audit in November 2017 but still not provided as at date of this report, 28/3/2018.
631791 of 29/6/2012	23,600		Requested for audit in November 2017 but still not provided as at date of this report, 28/3/2018
634851 of 30/12/2012	17,700	LPO 71999-002154 of date unknown.	Quoted but not attached with payment details.
		IN00047840 of 29/2/2012	Prisons PEAMS Database Retainer at the end of warranty period (15%)
			Retainer paid from Upgrade of CCTV allocation 10 months after being invoiced.
TOTAL	\$118,000		

- 4.5.4 As result of incomplete documentation, we were not able to determine whether all services required for the second phase of works had been provided by the vendor. Requirements Specifications document was also not attached to support the payment. In addition, we noted that the LPO in respect of this payment was issued after services had been provided by the vendor indicating that the second phase of the Project was implemented without required internal authorizations.
- 4.5.5 We also noted that the payment of retainer was made 10 months after invoice was issued by the vendor. It was established from discussions held that payment was withheld due to delays in completion of works by the supplier. However, this could not be corroborated due to the lack of documentation provided for our verifications. Moreover, we could not confirm whether any additional work or improvements were required during the warranty period as the undated supporting LPO 71999-002154 was not attached with payment records.
- 4.5.6 Furthermore, three out of the five payment vouchers in respect of the purchase of software requested for by us in November 2017 were still not provided for our verification. Thus we could not establish the correctness of the three payments made on cheque numbers 627733 of 30 August 2011, 629745 of 30 December 2011 and 631791 of 29 June 2012.
- 4.5.7 Missing vouchers and lack of supporting documents for payments made indicate poor records management and lack of transparency and accountability.
- 4.5.8 FCS has informed us that the high turnover of staff from management to middle-management level during this transitional period had greatly impacted the maintaining of records in the FCS. The different level of knowledge and experience brought about by this new personnel has increased and assisted the effort to implement the new changes, e.g. appointing HR and Finance personnel with vast knowledge in the Government systems and processes to conduct the required expertise in their respective fields.
- 4.5.9 In addition, FCS is currently implementing the process of reporting and minute writing during consultations and meetings. The reports are submitted as After Action Reports (AAR) for Commissioner's information.
- 4.5.10 All institutions are required to submit their daily Situation Report (SITREP), daily Summary of Information (SOI) and After Action Report (AAR) as and when activity occurs in the Institutions.
- 4.5.11 FCS has also established a Project Management Unit which works closely with the contractors ensuring the work is completed on time and in accordance with the Contract agreements. Continuous physical site inspections are also conducted.
- 4.5.12 We have currently improved the record and storage method of accounts documents especially the storage of vouchers. The limited space in the NHQ Accounts Unit, we ensure that these vouchers are recorded, labelled and stored away at our Records Unit in Korovou, Suva with an allotted space for Accounts documents to be stored.

Recommendations

23. The Fiji Corrections Services should continue to improve its record keeping processes so that critical records can be easily retrieved for audit and other purposes.
24. Where possible, FCS should instigate appropriate action against staffs who were responsible for PEAMS Project so that it acts as a deterrent.

5.0 EFFECTIVENESS OF PEAMS UTILISATION

5.1 PEAMS Utilisation

5.1.1 The PEAMS consists of two main modules as follows:

- (i) The Prison Officers Information System collects officer information and their records of establishment, engagement, leave management and course management. The system will generate periodic reports on various sections of the officer information system; and
- (ii) The Prisoner Information System manages the prisoner's information and keeps track of their prisoner number, offences, sentences, and various records. It will also generate statistical reports based on collected prisoners' information.⁵⁵

5.1.2 We examined the PEAMS to establish the extent of use of the web application and noted that supplementary data input into the PEAMS following the initial uploads of data in 2012 have been minimal. Data input was last done in November 2014. We also examined the following six modules of the system:

- (i) Inmates;
- (ii) Staff;
- (iii) Asset Stores maintenance;
- (iv) Admin; and
- (v) Reporting

5.1.3 The Inmates module allows users to search for inmates either by name or through their dates of birth.

We noted that initial inputs into the Inmates module were made from 10 July 2012 and to 29 September 2014. Altogether only 205 entries had been entered into the Inmates module, of which five entries were duplicates of particulars of two inmates.

5.1.4 The Staff module has provisions for managing staff adding new staff, recording and viewing attendance; on-line leave application and leave management.

We noted that only 99 staffs' details out of a total of 798 staffs had been entered into the Staff module. Details of six staff having either been discharged, resigned or deleted from the system. Not all tabs had been filled with staff details. In addition, fields for Attendance Register, Leave Application and Leave Management have no records to display indicating that no data has been entered.

5.1.5 The Assets and Stores module manages Inventory, Purchase Orders Requests, Issue/Return of Inventory, and Motor Vehicles.

We noted that only two entries were made in September 2012 into the Purchase Order Request field. However, there are no records to show under the Inventory and the Issue/Return Inventory fields indicating that no data has been entered.

Of the 42 entries input into the Motor Vehicle field, we noted that two entries were for non-operational vehicles (registration #s GM909 & GM912), details of five vehicles were entered

⁵⁵ Internet Fiji, Prisons and Correctional Service-PEAM System and IT Infrastructure Project section 3.1.2.1

into the system two or three times (Registration #s. GN562, GN563, GN751, GN791, & GM909), and details of vehicle registration GN777 had a model description of “Test”.

5.1.6 The Admin module manages:

- i. users and roles (i.e. adding selected users and removing selected authorised users from Active Directory Authorisations)
- ii. modules, actions, and roles (i.e. manages controllers, actions, and roles management); and
- iii. inmates administration (i.e. allows for administrators to input particulars of inmates admitted and to delete admissions from the system).

There are currently four staffs who are authorised with Administrator privileges, two staffs are authorised with access to Inmates module, five staffs are authorised with access to Staff module, and a staff has access to the Assets module. In addition, there are 161 users of the systems. The Authorised Users drop down panel still includes names of officers who are no longer employed by the FCS.

5.1.7 The Reporting module provides for printing of reports as listed in Appendix 2.1 to this report. However, currently reports cannot be generated by the System that support decision-making.

5.1.8 Any IT system can be effectively used once relevant data has been entered into the system. Delays in input of high quality, accurate and complete data have impacted on the utilisation of the PEAMS system. Hence, FCS has not been able to generate the desired benefits from the system which would have ensured value-for-money being realised.

5.1.9 FCS has advised that currently, data is manually recorded through the Excel spreadsheet for all FCS personnel at the HR Unit in NHQ, stores and Logistics with the Logistics unit at NHQ and Inmates Data with every institution and consolidated at the National Operation Centre, NHQ. Even though, these data are kept separately, they are continuously updated and maintained daily.

5.1.10 In addition, the use of PEAMS will be adequate only if updating of data does not disrupt the current system process in updating. E.g. to implement this into the system, data for Inmates and stores will need to be verified back to more than seven years before inputting into the system.

5.1.11 FCS has also indicated they have now centralised data compilation at National Operation Centre, NHQ and we support the continuity of upgrading PEAMS for updating of these data for FCS. Therefore, any upgrading done to the current PEAM systems will require additional funding from Ministry of Economy.

Recommendations

25. FCS should consider input of high quality, accurate and complete data into the respective modules of PEAMS. This can be achieved by:

- cleansing existing data;
- putting into place data input controls; and
- engaging dedicated personnel to assist in data input.

Once relevant data has been input into the system, necessary checks can be carried out to confirm the quality of data before it is used for information or decision-making.

26. FCS should seek additional funding from the budgetary process to fully utilise the PEAMS, if required.

5.2 Suppliers Support

- 5.2.1 Annual support include software support, source code, enhancements and requirements amendment ⁵⁶.
- 5.2.2 The annual maintenance fees was calculated at 20% of the project cost and amounted to \$23,600 and to be paid the year after delivery of the project.
- 5.2.3 Due to the unavailability of relevant records, we could not ascertain the extent of support provided by the supplier after the project was delivered. We also gathered from the FCS that the maintenance period had expired with effect from February 2017.
- 5.2.4 In December 2017, the FCS had sought quotes from the supplier to carry out bug fixing of the PEAMS and to provide training. The supplier is willing to provide eight hours of training for 2 users at a cost of \$6,800. The estimated costs for an upgrade of the system provided by the supplier is between \$70,000 and \$100,000.
- 5.2.5 Discussions with the supplier will enable identification of deficiencies within the PEAMS. The provision of training will also enhance the knowledge and skills of users to actively utilise the PEAMS.

Recommendations

- 27. FCS should consult with ITC Services for advice on how the technical requirements of PEAMS can be fully addressed.

⁵⁶ Government Tender Board Contract No. CTN 16/2011

APPENDIX 2.1 – REPORTS GENERATED FROM PEAMS

Inmates	Staff	Assets
<ol style="list-style-type: none"> 1. Sentence Comparison 2. Inmate movements 3. Inmates in Hospital 4. Inmates- Overall Current Muster 5. Inmates- Convict list by sentence length 6. Inmates-Convicted two years of release 7. Inmates -Convicts close to release 8. Inmates -Convicts close to release 9. Inmates- Current muster by age 10. Inmates- Current muster by age 11. Inmates- Current muster by province of origin 12. Inmates-Current muster by race 13. Inmates-Current muster by Religion 14. Inmates-Foreign Inmates 15. Inmates on CSO 16. Inmates on EMP 17. Inmates on Remand by time inside 18. Inmates-Last release date 19. Inmates -Next release date 20. Inmates -Offence by age group 21. Inmates-Offence by ethnicity 22. Inmates-Offence by religion 23. Inmates-Offence count by gender 24. Inmates-Offence count by province 25. Inmates-Offence count by race 26. Inmates-Offence count by religion 27. Inmates-Offence count by settlement 28. Inmates-Recidivism Rate 29. Inmates-SOI 30. Inmates-SOI 2 31. Inmates-Today's admission and discharges 32. Inmates-Total value of items in property room 	<ol style="list-style-type: none"> 1. Staff-attendance and punctuality record 2. Staff-currently on leave 3. Staff-issues by station 4. Staff-Promotions and Demotions 5. Staff-Rank, race & gender 6. Staff- Rank gender 7. Staff- Rank race 8. Staff- RFL results by station 9. Staff discipline by race, gender or ranks 10. Staff frequently on Sick Leave 11. Staff list by station 12. Staff who have taken no annual leave for the last X months 13. Staff who will retire in X years 14. Staff whose contract will expire in X years 15. Staff with more than X days of Annual Leave due 16. Staff with more than X days of Annual Leave due 17. Staff-Termination List 18. Staff- Acting Appointments 19. Staff Parade 20. Staffing by station and province 	<ol style="list-style-type: none"> 1. Assets and Store-Vehicles by station 2. Assets and Stores-Assets by station 3. Assets and Stores-Consumables at minimum holdings 4. Assets and Stores-Consumable stock by station 5. Assets and Stores-Fuel consumption by station

APPENDIX 2.2 – RESPONSE FROM ENTITY

Fiji Corrections Services are content with the comments included in the report and no further comments were provided.



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File: 576/2441

06 May 2018

Commander Francis Kean
Commissioner Correction Services
Fiji Correction Services
Fiji Bank Employees Union Building
62 Gordon Street
SUVA

Dear Commander Kean

AUDIT OF MANAGEMENT OF PRISONERS, EMPLOYEES AND ASSET MANAGEMENT SYSTEM

Attached is the draft report on audit of management of prisoners, employees and asset management system which I intend to submit to the Honorable Minister for Economy for tabling in Parliament. You will note that comments received has already been incorporated in the report where appropriate.

The draft report is submitted for your information and comments (if any) which we expect to receive by 13 May 2018. Comments provided would be included in an appendix to the report. Therefore, we will be grateful if any further comments are limited to 500 words.

We trust that you will keep the contents of the report confidential.

Yours sincerely

Ajay Nand
AUDITOR-GENERAL

End.

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