



OFFICE *of the* AUDITOR GENERAL  
*Republic of Fiji*

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# **REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI**

## **Audit Report on Municipal Councils for 2013**



PARLIAMENT OF FIJI  
PARLIAMENTARY PAPER NO. 135 OF 2018



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OFFICE *of the* AUDITOR GENERAL  
*Republic of Fiji*

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# OFFICE OF THE AUDITOR GENERAL

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File: 102

27 November 2018

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

Dear Sir/Madam

## **2017 AUDIT REPORT ON MUNICIPAL COUNCILS FOR 2013**

In accordance with section 152(13) of the Constitution of the Republic of Fiji, I am pleased to transmit to you my report on Municipal Councils for 2013.

A copy of the report has been submitted to the Minister for Economy who as required under section 152(14) of the Constitution shall 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 sincerely

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 expressing an opinion on the financial statements of state-owned entities. These audits are carried out by the Auditor-General on behalf of Parliament.

At least once every year, the Auditor General must report to Parliament on the audits conducted and on *other significant matters* the Auditor-General wishes to bring to the attention of Parliament.

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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## 1.0 Introduction

All municipal councils prepare annual financial statements. Special Administrators and management of these councils are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) and requirements of applicable laws and regulations. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error, selecting appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Auditor-General is responsible, on behalf of Parliament, for audit of the accounts of all municipal councils.

The Auditor-General may conduct audits in the manner considered appropriate but must ensure that they are conducted in a competent manner having regard to assessment of effectiveness of any relevant internal control system. The Auditor-General must carry out the audit in accordance with the relevant provisions of the standards on auditing issued by the Fiji Institute of Accountants or other relevant standards considered appropriate.

Following completion of an audit, the Auditor General must give an opinion on each set of financial statements audited. In addition, an audit memorandum or management letter should be issued to the responsible authority for each entity audited.

The Auditor-General's responsibility is to express an opinion on these financial statements based on his or her audit in accordance with the International Standards on Auditing (ISA). Those standards require the Auditor General to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

This report summarizes our analysis of the internal controls of municipal councils for which audit opinions were issued on the 2013 financial statements and the timeliness and quality of financial reporting by these entities.

It is important to note that the deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the councils. These have been included in this report as they impacted on the overall system of control of the municipal councils during 2013.



## 2.0 Types of audit opinions issued

In accordance with International Standards on Auditing, we express an *unmodified opinion* (unqualified) when the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium- sized Entities (IFRS for SMEs) and with relevant legislative requirements. This type of opinion indicates that material misstatements, individually or in the aggregate, were not noted in our audit, which would affect the financial statements of an entity.

We issue a *modified opinion* (qualified) when having obtained sufficient appropriate audit evidence, we conclude that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or we are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

An *adverse opinion* is expressed when we, having obtained sufficient appropriate audit evidence, conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

We issue a *Disclaimer of Opinion* when we are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and we conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

We include an *Emphasis of Matter* paragraph in the audit report to highlight an issue that will help the user better understand the financial statements. We also include an *Other Matter* paragraph to highlight a matter that is relevant to users' understanding of the audit report.

## 3.0 Results of our audits

As at 31 April 2018, we issued four audit opinions on the financial statements of the various councils for the 2013 financial year.

### 3.1 Quality and timeliness of financial reports

The financial statements of most councils audited were not received on time and contained several errors and omissions. Therefore, further improvements can be made to enhance the quality and timeliness of submission of financial statements for our audit.

### 3.2 Audit opinions issued

#### 3.2.1 Modified opinions

We issued modified opinions on all the four councils with two councils issued a disclaimer of opinion.

Audit opinions of the councils were modified due to the following:

- Non-preparation of the financial statements under the International Financial Reporting Standards for Small and Medium-sized entities as required by the Fiji Institute of Accountants.
- Unreconciled variances between the council's general ledger balances and subsidiary records for balance sheet items specifically the rates receivable.

#### 3.2.2 Unmodified opinions

None of the council's opinion was unmodified meaning that material misstatements were noted in all of the councils which were audited for financial year 2013.

### 3.3 Other significant matters

The Audit Act 1969 requires, amongst other things, that the Auditor-General must report on other significant matters which the Auditor-General wishes to bring to the attention of Parliament.

Other significant matters highlighted in this report, include control weaknesses which *could cause or is causing* severe disruption to the process or on the ability of an auditee to achieve process objectives and comply with relevant legislation.

It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.

Common findings which have been reported under other significant matters include the following:

- Absence of supporting documents for journal entries passed.
- Increasing trend in rate arrears.
- Variance between general ledger and subsidiary records for rates receivable.
- Absence of separation of duties.
- Variance in Value Added Tax between general ledger and subsidiary records and non- preparation of VAT reconciliation.
- Board of survey not carried out.

- Delay in submission of financial statements.
- Non-performance of monthly bank reconciliations.
- Salary reconciliation not carried out.
- Interest not being charged on rates due.
- Non maintenance of appropriate and adequate accounting records.
- Sexennial valuation not carried out by the councils.

### 3.4 Internal controls

Good internal controls provide reasonable assurance that an entity is achieving its objectives relating to operations, reporting and compliance. We assess the financial controls used by the Municipal Councils using the following five key elements:

- Control environment – actions, attitudes and values that influence daily operations
- Risk assessment – processes for identifying, assessing and managing risk
- Monitoring activities – oversight of internal controls for existence and effectiveness
- Control activities – policies, procedures, and actions taken to prevent or detect errors
- Information and communication – systems to inform staff about control responsibilities

When we identify that internal controls in any of these elements are missing or are not operating as intended, we refer to them as *control deficiencies (audit finding)*. If we identify that a control deficiency, either alone or in combination with other deficiencies, may lead to a material misstatement in the entity's financial statements, we refer to this as a *significant audit finding*.

If we identify a deficiency (audit finding) with any of these internal controls as part of our audits, we report the finding to the Council's management.

The Results Summary in Section 8; Page 40 shows the strength of controls in key elements for councils which were audited. Our audit indicated that Controls Activities and Risk assessment were areas where majority of the significant deficiencies were identified.

### 3.5 Delays in completion of audits

Table 1 below shows the status of municipal council audits as at 31 August 2018.

**Table 1: Status of Municipal Council Audits as at 31/08/18**

Council	Last year audited	Audits delayed (Years)
1. Suva City Council	2010	7
2. Lami Town Council	2013	4
3. Sigatoka Town Council	2016	Nil
4. Nadi Town Council	2013	4
5. Lautoka City Council	2013	4
6. Ba Town Council	2015	2
7. Tavua Town Council	2013	4
8. Rakiraki Town Council	2014	3
9. Levuka Town Council	2011	6
10. Nausori Town Council	2013	4
11. Nasinu Town Council	2009	8
12. Labasa Town Council	2015	2
13. Savusavu Town Council	2010	7

Audits of four municipal councils have not been completed for financial year 2013 primarily due to the following:

- Delay in submission of draft accounts for audits or draft accounts submitted were incomplete and were returned to the councils for further action; and
- Relevant information/records were not provided for audit on a timely basis.

Efforts are being made to complete the audit of accounts which have been received.

Details of audits not completed are provided in **Appendix A**.

### 3.6 Audit recommendations

- 3.6.1 Modified (qualified) opinions were issued on all the financial statements audited which reflects very poorly on the councils. Close and immediate attention should be given to address matters which have been emphasized in audit reports including those included as other significant matters in management letters.
- 3.6.2 Timely preparation of quality draft annual financial statements is a major issue which needs to be addressed by those charged with governance in the councils. Delays in submission of financial statements for audit prevents the Auditor-General from giving an opinion on them on a timely basis and informing Parliament and other stakeholders of the outcome of such audits.
- 3.6.3 Efforts should be made to improve rate collection as most councils that were audited were carrying a significant amount of rate debtors. This is important because rates is the main source of income for the councils and its timely collection can assist the councils significantly to meet operational and capital expenditures.
- 3.6.4 Another key area that needs to be improved by the councils that were audited is their financial reporting. Numerous audit adjustments were proposed for correction of incorrect accounting entries and accounting misstatements. This was also one of the key reason that completion of audits of most councils were delayed.
- 3.6.5 The involvement of Ministry of Local Government in improving accountability and financial reporting is noted. However, there is room for improving individual capacity in financial management and reporting through active participation in seminars and workshops. It has been noted that it becomes challenging for councils to prepare annual accounts when these have not been done for some time resulting in a backlog. The Ministry can encourage councils to prepare and submit draft financial statements for audit annually.

### 3.7 Reference to comments

The comments provided by municipal councils following the audit have been incorporated in this report.

We provided a full copy of this report with request for comment to Ministry of Local Government, Housing and Environment on 15 September 2018.

We also provided extracts of the report with request for comment to the councils referred to in the report.

Responses received as at 26 September 2018 are reflected in **Appendix C**.

## 4.0 Context

### 4.1 Legislative framework

The following legislation establishes the financial accountability frameworks and legislative time frames to complete and publish audited financial statements for municipal councils.

**Table 2: Local Government Legislative Requirements**

Legislative Framework	Requirement	Legislative Timeframe
<ul style="list-style-type: none"> <li>Local Government Act, Section 57(1)</li> </ul>	Prepare financial statements	31 <sup>st</sup> May
<ul style="list-style-type: none"> <li>Local Government Act, Section 57 (3)</li> </ul>	Publish audited financial statements	31 <sup>st</sup> August

Each year, on or before 31<sup>st</sup> August, municipal councils are required to publish the balance sheet and summarized income and expenditure of the councils in local newspapers Annual Reports containing:

- A balance sheet and a summarized statement of income and expenditure of the council on 31 December immediately preceding, together with any report by the auditor thereon and;
- Notification that any ratepayer or any person holding any security charged upon the property of the council, may at all reasonable time inspect, at council's office, the full annual statement as certified by the auditor and the council's annual report prepared pursuant to the provision of section 19 and may take copies from any part of the statement or report.

The Minister responsible for Local Government is required to lay before Parliament the copies of the annual statement and reports on or before 31 July in each year, for preceding financial year.

## 5.0 Role of Municipal Councils

Municipal Councils are essentially territorial in nature and thus are concerned with activities and provision of service within defined areas. They are established by statute and their powers, duties and responsibilities are prescribed by the relevant law.

Generally, the Local Government Act requires the councils to promote the health, welfare and convenience of the inhabitants of the municipality and to preserve the amenities.

Primarily a council may with approval of the Minister:

- (a) Promote or establish and maintain Public Utility Services including Public Transportation; and
- (b) Construct or maintain any public works which in the opinion of the Council may be necessary or beneficial to the Municipality

## 6.0 Audit Opinion results

Table 3 summarizes the audit opinions we issued for audit of the 2013 financial statements for municipal councils as at 30 August 2018.

**Table 3: Audit opinions issued by OAG for 2013 financial year**

Entity type	Unmodified opinions	Modified opinions	Disclaimer of opinion
Municipal Council	0	2	2

**Appendix B** lists the councils and the audit opinions which were issued for the financial statements for year ending 31 December 2013.

## 6.1 Modified audit opinions

Audit opinions were modified (qualified) due to the following reasons:

### 6.1.1 *Lautoka City Council*

- The Council made several adjustments to cash at bank accounts amounting to debit of \$3,554,180 and credit of \$3,290,711 through general journal entries and balance day adjustments. The Council did not provide supporting documents to substantiate the adjustments. Consequently, our audit was unable to determine if the adjustments were correctly taken up in the general ledger and whether cash at bank was correctly stated in the financial statements.
- Unreconciled variance of \$750,987 was noted between the rate debtors' listing and general ledger. Consequently, our audit was unable to determine if receivable of \$5,992,354 was fairly stated in the financial statements.
- Included in the other creditors of \$1,205,166 is VAT payable totaling \$248,161. An unreconciled variance of \$204,864 was noted between this amount and that derived following an independent reconciliation of the Statement of VAT Account. Consequently, our audit was unable to ascertain the accuracy of VAT payable as at 31 December 2013.
- Unreconciled variance of \$464,800 exists between the PAYE annual summary and the general ledger for salaries and wages. Consequently, I am unable to satisfy myself if salaries and wages of \$1,385,139 is correctly stated in the financial statements.

### 6.1.2 *Nadi Town Council*

- Trade and other receivables included miscellaneous debtors and infringement fines of \$80,862 and \$43,217, respectively. Appropriate reconciliations and records were not provided to substantiate these balances. In addition, unreconciled variance of \$217,701 was noted between general ledger and Statement of VAT account for Value Added Tax refundable. Accordingly, our audit not able to determine on the existence, accuracy and completeness of these receivable accounts. Therefore, our audit was not able to confirm if the Trade and other receivables of \$2,007,270 were fairly stated in the Financial Statements.
- Unreconciled variance of \$91,194 existed between the general ledger and bank reconciliation statement of the General Fund Account. In addition, the Council did not provide bank reconciliation of the General Fund Account which had an ending balance of \$420,662. Our audit was also not able to obtain sufficient audit evidence through alternative audit procedures to confirm completeness, valuation and existence of these accounts. Accordingly, I was not able to confirm if cash at bank balance of \$565,459 under the General Fund was fairly stated.
- Stated under current liabilities were sundry deposits of \$706,930. The Council was unable to provide-sufficient and appropriate evidence to substantiate these deposits. We were not able to perform necessary audit procedures or any other alternative audit procedure to verify completeness, existence and valuation of this balance.

## 6.2 Emphasis of Matter

Audit opinions were modified with additional emphasis made in some audit reports.

### 6.2.1 Nadi Town Council

- The value of parking meters has not been incorporated in the Statement of Financial Position as at 31 December 2013.
- The council records the Parking Meter Fund Account (PMFA) cash at bank general ledger balance through a book entry by adding ending balance of accumulated funds of the PMFA with the net deficit/profit derived from the operations of the account. Additionally, the Council does not maintain a separate cash book to record all receipts and disbursements in relation to parking meter operations.

## 6.3 Disclaimer of Opinion

The audit of the financial statements of the municipal councils for the year ended 31 December 2013 resulted in the issue of a Disclaimer of Opinion for the following Councils:

### 6.3.1 Nausori Town Council

- The Council did not prepare monthly bank reconciliation for Garbage fund, Vehicle fund, Labourer's fund and Loan Fund accounts. In addition, General Fund Account bank reconciliations included a number of reconciling items with significant amounts which could not be substantiated which untenable me to place reliance on the bank reconciliation. Furthermore, unpresented cheques amounting to \$122,267 which were stated as stale at balance date was not reversed by the Council and necessary supporting documents were not provided to substantiate them. As a result, we were unable to perform necessary audit procedures to verify existence, completeness and accuracy of the cash at bank of \$99,437 as disclosed in the financial statements.
- The Council has disclosed total of \$1,964,340 as Trade and Other receivables in the statement of financial position. However, the council was unable to provide reconciliation of rate debtors of \$1,836,120, fees, charges and rent of \$108,733 and other receivables of 9,487. We were unable to perform any other alternative audit procedures to obtain sufficient audit evidence to verify existence, completeness and accuracy of the receivable balances disclosed in the financial statements.
- The Council recorded a sum of \$2,770,231 in total expenses in the statement of comprehensive income for the year ended 31 December 2013. The Council did not provide payment vouchers and appropriate supporting documents for amounts totaling \$66,884 for audit verification. In addition, numerous payments made in the financial year ending 2013 related to the 2012 financial year were recorded as expenditures. The council did not record the accruals for these payments in the financial year. As a result, we were unable to determine whether any adjustments might have been necessary in respect of the Council's expenses for the current year.
- The Council recorded total revenue of \$1,892,027 in the Statement of Comprehensive Income. The Council was unable to provide a reconciliation of total rate payers and associated general rates income to verify the completeness and accuracy of its general rates income amounting to \$456,785. In addition, appropriate records or reconciliations were also not provided for Business trading and other licenses and Fees, charges and rent of \$212,734 and 892,405, respectively. Absence of the reconciliations and records limited the audit scope to perform necessary audit procedures to obtain sufficient



appropriate evidence over completeness and accuracy of the revenue balance disclosed in the financial statements.

- A number of variances existed in the asset movements between the financial statements and the fixed assets schedule. Included in this were variances of \$239,890 and 553,920 in the written down value as at 31/12/13 for property, plant and equipment, respectively. In addition, fixed assets schedule does not include details of opening balances of each class of assets. Reconciliation, was also not carried out between the fixed assets schedule and the financial statements. As a result, we were unable to perform necessary audit procedures to verify existence, completeness and accuracy of PPE balance of \$8,435,308 as disclosed in the financial statements.
- The Council has properties which are leased to tenants. However, the Council has not disclosed separately these properties as Investment property in accordance with International Accounting Standards (IAS 40). The Council was unable to provide supporting documents for the leased properties. As a result, we were unable to determine whether any adjustments might have been necessary in respect of the Council's investment properties balances in the current year or comparative year, and the elements making up the statement of profit or loss and other comprehensive income, movement in funds and cash flows.
- The Council had recorded \$167,189 as trade and other payables as part of total Trade and other payables as disclosed in Note 7 to the financial statements. There is an unreconciled variance of \$83,953 between this amount and the subsidiary listing. In addition, there was no movement in this account from prior year. As a result, we were unable to verify the existence, completeness and accuracy of trade and other payables as disclosed in the financial statements.
- The Council had a provision for VAT of \$51,763 recorded within Trade and other payables in the statement of financial position as at 31 December 2013. The Council did not perform reconciliation for the VAT payable account. As a result, we were unable to determine whether any adjustments might have been necessary in respect of the Council's provision for VAT and VAT receivable/payable balances at the end of the financial year, and the elements making up the statements of profit or loss and other comprehensive income, movement in funds and cash flows.

### **6.3.2 Rakiraki Town Council**

- Rakiraki Town Council is a Municipal Council and the financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities ("IFRS for SMEs"). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements.
- Accordingly, we were unable to determine the impact on the financial statements of the Council if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs.
- The Council could not provide adequate and appropriate accounting records, supporting documents and reconciliations for cash at bank of \$64,070, trade and other receivables of \$104,834, property, plant and equipment of \$279,546, VAT payable of \$106,075, prior year adjustment of \$54,610, salary and wages of \$104,559, garbage collection expense of \$17,081, depreciation expense of \$67,257 and miscellaneous expenses of \$226,422. In addition, we were unable to obtain sufficient and appropriate audit evidence concerning the total income of \$332,020 reflected in the financial statements. Therefore,

we were unable to perform necessary audit procedures to substantiate accuracy of the balances of these accounts disclosed in the financial statements.

- The Council did not maintain an up-to-date general ledger for the financial year 2013. As a result, we could not perform necessary audit procedures to confirm balances from financial statements to general ledger. Therefore, we were unable to confirm the accuracy on the determination of the balances in the financial statements.
- The Audit Report on the 2012 statement of financial position was qualified. I was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Therefore, I am unable to satisfy myself concerning the opening balances disclosed in the statement of financial position of the Council and the impact it may have on the determination of the closing balances of the 2013 financial statements.

## 6.4 Abridged Financial Statements and Analysis

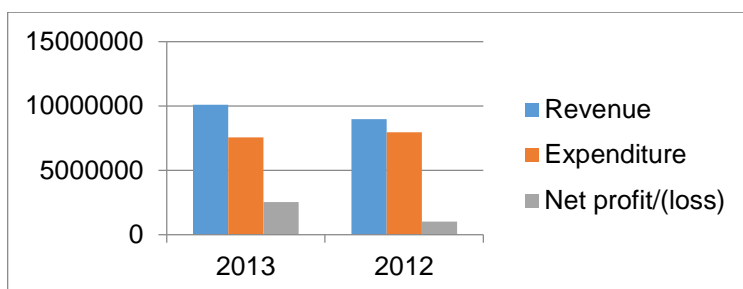
### 6.4.1 Lautoka City Council

**Table 4: Abridged Financial Statement and Analysis**

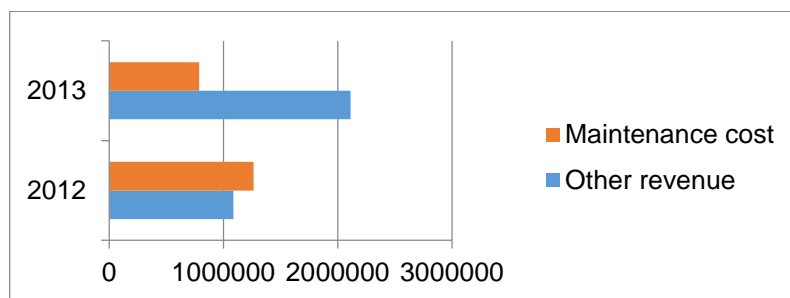
Description	31 December 2013 (\$)	31 December 2012 (\$)
Rates Revenue	4,183,022	4,156,938
Fees, charges and rent	3,803,362	3,722,126
Other Revenue	2,112,018	1,087,405
<b>Total Revenue</b>	<b>10,098,402</b>	<b>8,966,469</b>
Salaries, wages and related payments	1,385,139	1,385,533
Depreciation	624,809	732,263
Maintenance costs	787,215	1,263,106
Finance costs	393,525	578,518
Other Administrative and rate payer expenses	4,373,299	3,996,103
<b>Total Expenditure</b>	<b>7,563,987</b>	<b>7,955,523</b>
<b>Net surplus for the year</b>	<b>2,534,415</b>	<b>1,010,946</b>

The Council's net surplus increased by \$1,523,469 or 151% in 2013 compared to 2012. The increase was mostly due to decrease in maintenance cost by \$475,891 or 38% in 2013. In addition there was increase in other revenue by \$1,024,613 or 94% which was due to revenue of \$408,000 received through sublease of land in 2013 compared to nil in 2012.

**Figure 1: Comparison of operating results of the council - 2013 VS 2012**



There is an upwards trend in revenue and a downward trend in expenditure.

**Figure 2: Major changes in revenue and costs of the council influencing the Net profit in 2013**

Maintenance cost has reduced in 2013 while the other revenue has increased significantly in 2013 for the Council contributing significantly to the increase in net profit in 2013 compared to 2012.

**Table 5: Abridged Statement of Financial Position**

Description	31 December 2013 (\$)	31 December 2012 (\$)
<b>Assets</b>		
Cash at bank and on hand	3,599,765	1,193,671
Term deposit	1,481,120	1,346,120
Receivables	6,037,212	4,619,487
Property, plant and equipment	9,849,854	55,882,389
Inventories	20,140	22,567
<b>Total Assets</b>	<b>20,988,091</b>	<b>63,064,234</b>
<b>Liabilities</b>		
Creditors and borrowings	2,586,577	795,074
Provisions	250,447	198,266
Term Loans	8,257,920	8,741,974
Capital Grant in Aid	403,289	497,016
<b>Total Liabilities</b>	<b>11,498,233</b>	<b>10,232,330</b>
<b>Net Assets</b>	<b>9,489,858</b>	<b>52,831,904</b>
<b>Accumulated Funds</b>		
General funds	8,206,825	3,129,078
Parking meter funds	500,450	470,415
Car Park Fund	327,093	304,832
Reserves	455,490	48,927,579
<b>Total Accumulated Funds</b>	<b>9,489,858</b>	<b>52,831,904</b>

There was decline in the Council's net assets in 2013 by \$43,342,046 or 82% in 2013 compared to 2012. The decline in net asset is mainly attributed to the decrease in property, plant and equipment by \$46,032,535 or 82% due to transfer of roads, drains and footpaths to Fiji Roads Authority.

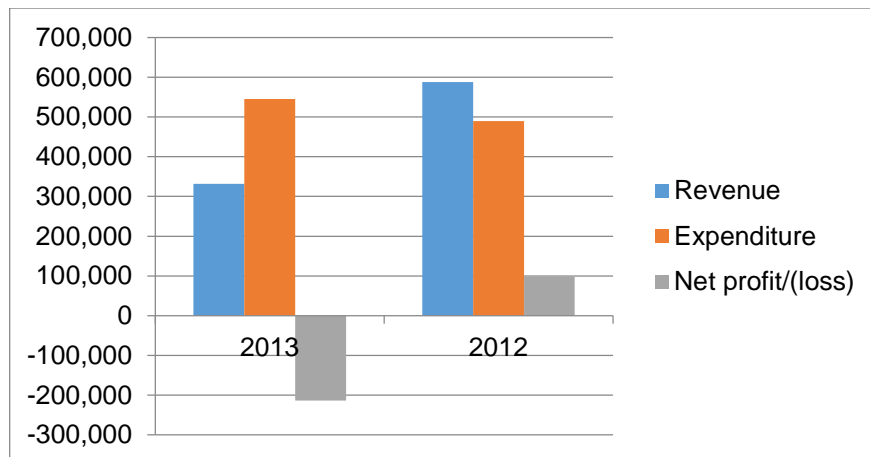
## 6.4.2 Rakiraki Town Council

**Table 6: Abridged Financial Statement and Analysis**

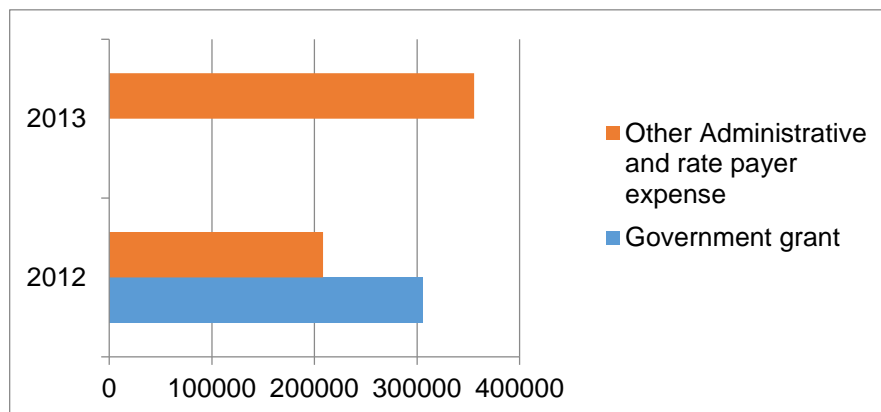
Description	31 December 2013 (\$)	31 December 2012 (\$)
Rates Revenue	95,216	803
Fees, charges and rent	216,308	177,235
Government grant	-	305,792
Other Revenue	20,496	104,073
<b>Total Revenue</b>	<b>332,020</b>	<b>587,903</b>
Salaries, wages and related payments	104,559	102,527
Depreciation	67,257	102,620
Maintenance costs	17,910	76,287
Other Administrative and rate payer expenses	355,758	208,364
<b>Total Expenditure</b>	<b>545,484</b>	<b>489,798</b>
<b>Net (deficit) / surplus for the year</b>	<b>(213,464)</b>	<b>98,105</b>

The Council recorded an increase in deficit by \$311,569 or 317.6% in 2013 compared to 2012. The deficit is mainly attributed to the significant increase in miscellaneous expense and non-receipt of government grant in 2013.

**Figure 3: Comparison of operating results of the council - 2013 VS 2012**



**Figure 4: Major changes in revenue and costs of the council influencing the Net profit in 2013**



In 2013, other administrative and rate payer expenses increased significantly while grants from government were not received during the year.

**Table 7: Abridged Statement of Financial Position**

Description	31 December 2013 (\$)	31 December 2012 (\$)
<b>Assets</b>		
Cash on and cash equivalents	64,070	237,158
Trade & Other Receivables	104,834	25,586
Property, Plant and Equipment	279,546	409,765
<b>Total Assets</b>	<b>448,450</b>	<b>672,509</b>
<b>Liabilities</b>		
Bank Overdraft	-	1,246
Creditors	6,560	3,474
Sundry Deposits	522	533
VAT Payable	106,075	63,889
<b>Total Liabilities</b>	<b>113,157</b>	<b>69,142</b>
<b>Net Assets</b>	<b>335,293</b>	<b>603,367</b>
<b>Net Accumulated Funds</b>	<b>335,293</b>	<b>603,367</b>

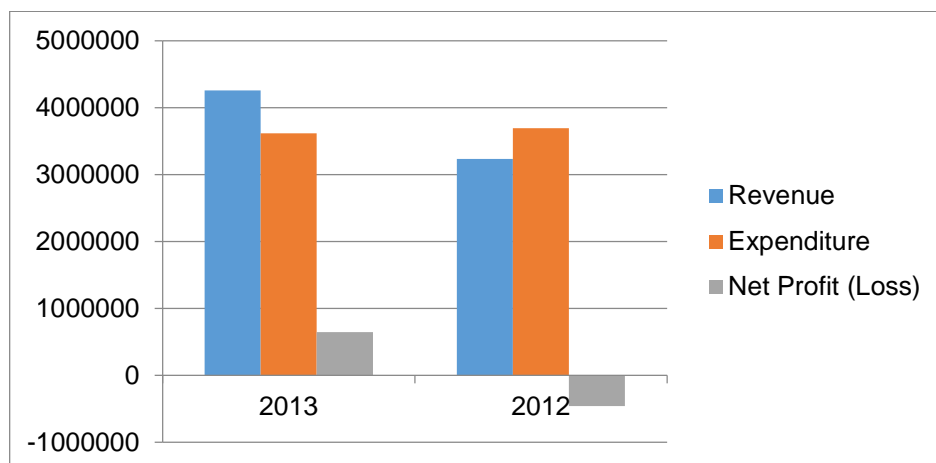
The Council recorded a decrease in net assets by \$268,074 or 44.4% in 2013 compared to 2012. The decrease was mainly attributed to the significant decrease in property, plant and equipment and increase in VAT payable. Decrease in property, plant and equipment was mainly due to depreciation expense while there was no addition in 2013 in comparison to \$420,373 in 2012.

### 6.4.3 Nadi Town Council

**Table 8: Abridged Financial Statement and Analysis**

Description	31 December 2013 (\$)	31 December 2012 (\$)
<b>Revenue</b>		
Rates	1,615,914	1,036,407
Fees, charges and rent	1,670,851	1,329,446
Others	972,679	869,503
<b>Total Revenue</b>	<b>4,259,444</b>	<b>3,235,356</b>
<b>Expenditure</b>		
Salaries, Wages & Related Payments	1,237,344	1,267,948
Maintenance	407,971	354,191
Depreciation	209,345	364,267
Others	1,759,801	1,709,009
<b>Total Expenditure</b>	<b>3,614,461</b>	<b>3,695,415</b>
<b>Result For The Year From Ordinary Activities</b>	<b>644,983</b>	<b>(460,059)</b>

The Council recorded a net profit of \$644,983 in 2013, compared to the deficit of \$460,059 in 2012. The profit amount was mainly attributed to increase in general rates revenue in 2013 which increased by \$641,295 in 2013 compared to 2012.

**Figure 5: Comparison of operating results of the council - 2013 VS 2012****Table 9: Abridged Statement of Financial Position**

Description	31 December 2013 (\$)	31 December 2012 (\$)
<b>Assets</b>		
Cash at Bank and on Hand	571,323	528,638
Trade and Other Receivables	2,007,270	1,760,706
Non-Current Assets	17,321,521	32,228,513
<b>Total Assets</b>	<b>19,900,114</b>	<b>34,517,857</b>
<b>Liabilities</b>		
Creditors, Accruals and Provision	225,840	283,326
Sundry Deposits	706,930	706,930
Deferred Income	411,023	368,601
Loan	2,510,888	2,627,573
<b>Total Liabilities</b>	<b>3,854,681</b>	<b>3,986,430</b>
<b>Net Assets</b>	<b>16,045,433</b>	<b>30,531,427</b>
<b>Accumulated Funds</b>		
General	10,151,538	24,948,642
Loan Repayment	5,828,331	5,460,614
Sewerage	59,700	59,700
Parking Meter	5,864	62,471
<b>Net Accumulated Funds</b>	<b>16,045,433</b>	<b>30,531,427</b>

Net assets decreased by \$14,485,994 or 47% in 2013 compared to 2012. The decrease was mostly attributed to the decrease in property, plant and equipment by \$14,906,992 or 46% due to transfer to the Fiji Roads Authority.

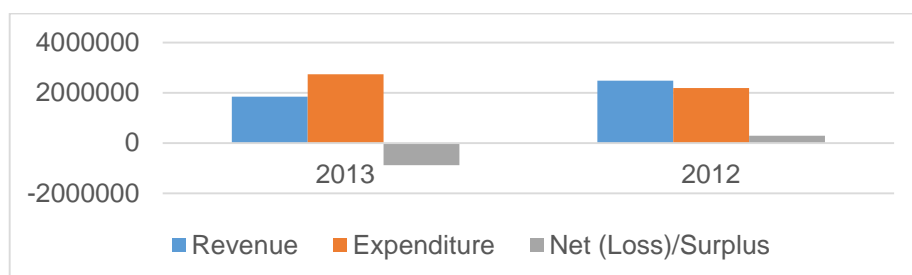
## 6.4.4 Nausori Town Council

**Table 10: Abridged Financial Statement and Analysis**

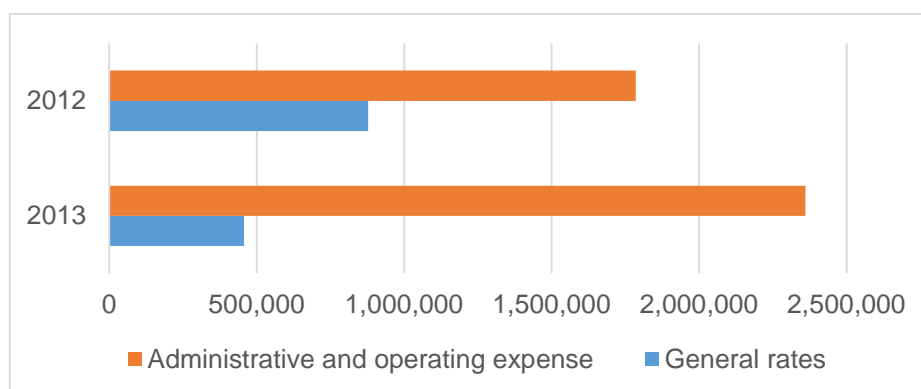
Description	31 December 2013 (\$)	31 December 2012 (\$)
Rates revenue	456,785	878,178
Fees, charges and rent	892,405	1,130,791
Other revenue	542,837	512,990
<b>Total Revenue</b>	<b>1,892,027</b>	<b>2,521,959</b>
Administrative and operating expense	2,359,814	1,784,856
Depreciation	161,977	162,752
Maintenance costs	208,845	277,135
Finance costs	39,595	17,226
<b>Total Expenditure</b>	<b>2,770,231</b>	<b>2,241,969</b>
<b>Net (loss)/surplus for the year</b>	<b>(878,204)</b>	<b>279,990</b>

The Council recorded a deficit of \$878,204 compared to net surplus of \$279,990 in 2012. The deficit was mainly attributable to increase in Administrative and Operating expense which increased by \$574,958 in 2013 and was mainly due to expense of \$433,211 which was recorded to clear the written down value of the roads, footpaths and streetlights which were transferred to Fiji Roads Authority in 2013 compared to nil in 2012. In addition, rates revenue declined by \$421,393 or by 48% in 2013 compared to 2012.

**Figure 6: Comparison of operating results of the council - 2013 VS 2012**



**Figure 7: Major changes in revenue and costs of the council influencing the Net profit in 2013**



**Table 11: Abridged Statement of Financial Position**

Description	31 December 2013 (\$)	31 December 2012 (\$)
<b>Assets</b>		
Cash at bank and on hand	99,437	15,612
Receivables	1,954,340	2,368,554
Property, plant and equipment	8,435,306	7,139,244
Investments	36,758	27,841
<b>Total Assets</b>	<b>10,525,843</b>	<b>9,551,251</b>
<b>Liabilities</b>		
Creditors	437,652	566,341
Provisions	18,940	18,940
Interest bearing borrowings	1,169,785	404,647
<b>Deferred Income</b>	<b>1,535,773</b>	<b>300,726</b>
<b>Total Liabilities</b>	<b>3,162,150</b>	<b>1,290,654</b>
<b>Net Assets</b>		
<b>Council Municipal Funds</b>		
Accumulated surplus	1,276,168	2,173,072
Asset revaluation reserve	6,087,525	6,087,525
<b>Total Municipal Funds</b>	<b>7,363,693</b>	<b>8,260,597</b>
<b>Total Equity and Liabilities</b>	<b>10,525,843</b>	<b>9,551,251</b>

## 6.5 Other Significant Matters

The following significant matters were brought to the attention of respective council's management. It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.

### 6.5.1 Lautoka City Council

#### 6.5.1.1 Duties of staffs not separated

The Council's Cashier is responsible for receipting, banking and entering transactions into the cash book. Audit noted that there is no evidence of Cashier's work being reviewed and checked by an independent authorized officer.

The anomaly exposes the Council to risk of fraudulent activities relating to cash.

The council has indicated that separation of duties has now been implemented.

#### 6.5.1.2 Bank Reconciliation

Review of Council's cash balances revealed that the bank reconciliation for Savings Account which had the ending balance of \$3,113,962 was not prepared.

The Council has indicated that MYOB software has been deployed and bank reconciliations are now done on a monthly basis.

#### 6.5.1.3 No basis for provision for doubtful debts

The Council was not able to provide the basis used for estimating provision for doubtful debts. Consequently, our audit was not able to substantiate how the Council recorded the provision amount totaling \$1,000,000 in the 2013 financial statements.

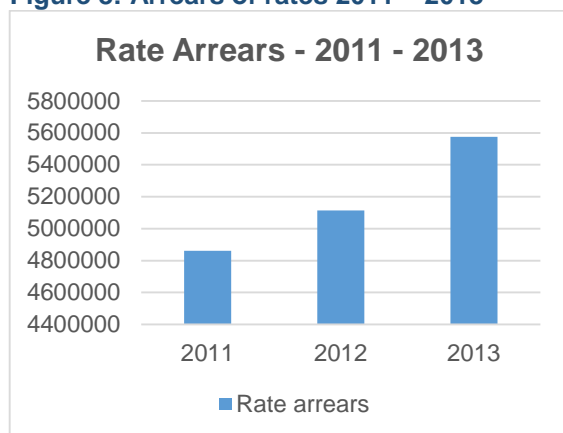
The Council indicated that it is in the process of drafting a policy based on debtors aging report.



### 6.5.1.4 Arrears of Rates

Audit noted that a significant portion of Council's rate revenue is tied up with rate payers failing to pay their rates on time. Rates in arrears has been increasing since 2011. Refer below for details.

**Figure 8: Arrears of rates 2011 – 2013**



The above graph shows an increasing trend in the areas of rates.

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

### 6.5.1.5 Procurement of Goods and Services

Our audit noted that the Council did not obtain three quotes for procurement of goods and services at all time. Refer to Table 12 for details.

**Table 12: Procurement without quotations**

Date	Description	Voucher No.	Amount
13.08.13	Payment to Time Electrical for electrical repairs	1279	6,386.10
20.07.13	Payment to Global Electrical for supply of material for street lights	1154	3,369.57
20.07.13	Payment Neutech Electrical for the supply of material for parks and gardens.	1159	1,560.00
11.06.13	Payment to Anoop Prakash & Sons Transport for the hire of truck.	936	1,866.96
22.05.13	Payment to Electomech Distributors Ltd for the stationery and materials for streetlight.	786	5,355.83

The Council has indicated that now three quotations are required for any purchases except for very exceptional cases where three quotes are not available due to limited or only supplier.

## **6.5.2 Rakiraki Town Council**

### ***6.5.2.1 Proper Accounting System not employed***

Our audit found out that separate general ledger accounts were not maintained for a number of accounts disclosed in the financial statements including all balance sheet accounts. This led to lack of audit trail for most of the amounts reflected in the 2013 financial statements.

The council has advised that it has commenced with appropriate general ledger system from the 2015 financial year.

### ***6.5.2.2 Weak controls over banking***

Significant anomalies were noted in the internal control system for cash at bank. This includes, incorrect preparation of bank reconciliation, absence of review on the bank reconciliation and non-preparation of banking summaries.

The council has indicated that it has improved the system in 2016.

### ***6.5.2.3 Interest not charged on outstanding rates***

We noted from review of rates receivable that the Council has not charged interest of 11% on overdue rates.<sup>1</sup>

The council has indicated that it has commenced charging the interest of 11% on the outstanding rates.

### ***6.5.2.4 Proper records not maintained for business licenses***

We noted that the Council did not maintain a list of all the businesses that were operating within the municipality. As a result, we could not establish whether all the traders were paying their annual business license fees.

The council indicated that it has improved the maintenance of business license records from 2015 whereby a folder is maintained for each business.

### ***6.5.2.5 Accrual accounting system not practiced***

We noted that the Council recorded rates, garbage fees and business license fees on cash basis. Consequently, it has not captured all the revenue it has earned during the year.

The council indicated that it has implemented full accrual accounting system from the 2015 financial year.

<sup>1</sup> Section 78 (2), Local Government Act

### **6.5.3 Nausori Town Council**

#### ***6.5.3.1 Weak system for financial reporting***

We found out that the Council has a weak structure for its financial reporting. It was apparent from our audit that the council lacks a good financial management and accounting system.

Some of the observations made during audit are as follows:

The Council does not have a computerized accounting system and therefore relies on manual accounting system for financial information. However, we noted that separate general ledger accounts were not maintained for a number of accounts reflected in the financial statements. This led to lack of audit trail for some of the amounts appearing in the financial statements;

- A general journal was not maintained by the Council to record adjustments made to the financial statements which were non-cash in nature;
- There was no evidence to indicate that monthly management accounts were reviewed and signed off by relevant officers of the Council; and
- Accrual accounting system was not consistently applied as misstatements were noted in respect of creditors and accruals and receivables.

The council has advised that it will establish full electronic financial system for which work will commence from January 2019.

#### ***6.5.3.2 No supporting documents provided for capital grant***

The Council received a capital grant of \$1,304,330 in 2013 from the Ministry of Local Government and Housing. However, the Council was not able to provide the grant agreement signed with the Ministry of Local Government and Housing.

The Council stated that all agreements are properly kept in CEO's office. However, grant agreement was not produced for audit verification during audit. A copy of the agreement was also requested from the Ministry but was not provided for our review despite repeated follow-ups.

#### ***6.5.3.3 Absence of Contract Agreement***

The Council did not provide tenancy agreements for a number of its properties that have been let out on rent for audit review.

The Council has advised that tenancy agreements has been prepared and signed off and copies has been sent to FRCA for stamping.

#### ***6.5.3.4 Payroll***

Significant deficiencies were noted in internal controls for processing and accounting of salaries and wages. These included the following:

- Non-preparation of salaries and wages reconciliation; and
- Manual changes and alterations made to the weekly payroll reports attached to the payment vouchers were not signed by the officers responsible for making the changes.

The council has indicated that it has now put into place necessary controls.

### 6.5.3.5 Anomalies in Procurement of Goods and Services

Audit of procurement of goods and services revealed the following anomalies:

- Contract documents for the garbage contractor who was engaged for five years effective from 8 August 2012 at an annual cost of \$166,400.00 was terminated in October 2013 due to non-performance. However, the council was unable to produce contract documents and the performance assessment report to support the termination of contractor.
- The Council engaged another contractor for garbage collection services in October 2013 after the termination of the previous contractor. The contract was for a term of three years costing \$176,800 per annum. However the contract agreement between the Council and contractor was signed on 11 June 2014 after lapse of eight months.
- The Council engaged a company for borehole drilling and submersible pump for the Ratu Cakobau Park upgrade at a cost of \$15,000. We noted during our audit that tenders were not called as required by the Manual of Municipal Councils. We further noted that the company was selected based on three quotations. However, the Council could not provide documentations to support that the waiver was obtained from Ministry of Local Government for not following the tender process.

The council has advised that procurement practice is now in line with the Manual of Accounts.

### 6.5.3.6 Anomalies in Payments

Audit review of internal controls over payments revealed that there were instances when the Council did not exercise adequate control when procuring goods and services. Refer to Table below for examples.

**Table 13: Examples of anomalies in payments**

Anomaly	Expense type	Amount (\$)
Requisition form not approved	Fuel	566
Competitive quotations not obtained	Repairs and maintenance	11,786
	Office expenses	1,456
	Payroll software	2,400
Payment vouchers without any attached documents	Repairs and maintenance	870
	Ingredients for lunch	250
Local purchase orders not raised	Repairs and Maintenance and grass cutting	2,754
Invoices not obtained	Repair and maintenance and fuel for grass cutting	901
No requisition forms	Repair and maintenance	14,741
	Office expenses	222,8
	Payroll Software	2,400

The Council has informed that the procurement practice is now in line with the Manual of Accounts.

## **6.5.4 Nadi Town Council**

### ***6.5.4.1 Absence of segregation of duties in the Finance Section***

We noted absence of separation of duties in receipting and payroll functions of the Council. Council's Accounts Clerk performed the core accounting work in cash and payroll area which includes receipting, preparation of cash book, monthly bank reconciliation, processing of payroll and acting as a Treasurer. In addition, the Accounts Clerk also held the key for the Council's safe and acted as Manager Finance from 26 June 2013 to 27th May 2013.

The Council indicated that receipting and accounting task has now been segregated

### ***6.5.4.2 Discrepancies in cash and bank reconciliation***

Our review of the cash and bank reconciliations revealed the following discrepancies:

- Hard copies of bank reconciliations were not made available for our review. Consequently, it was not possible to establish if any review was carried out on the reconciliations;
- Variance of \$91,194 was noted between the current account bank reconciliation and financial statement;
- Receipt of \$6,370.91 for the Council's Current Account in the month of March 2013 was not banked at balance date. We were informed by the Accounts Officer that monies could not be banked since it was locked in the safe. The Council could not cash the cheques amounting to \$2,757.31 upon opening of the safe in January 2014 since the cheques had become stale.
- Stale cheques amounting to \$4,158.07 were not reversed by the Council for the Current Account.
- Bank reconciliations were not carried out for two bank accounts which had balances of \$420,662 and \$6,839.40, respectively as at 31 December 2013.

The Council has advised us that it is performing the bank reconciliations which are being reviewed. In addition, stale cheques are identified and reversed on a timely manner

### ***6.5.4.3 Lack of internal controls for parking meter revenue***

We noted that cash collected from parking meter is counted by a Technician and Enforcement Officers in their office after collection without the presence of an independent officer from Accounts Section. We were informed by the Senior Enforcement Officer that counting is done in the Enforcement office due to lack of space in the Council's main office.

This audit finding indicates lack of separation of duties in collection of revenue from parking meters.

The Council has informed us that parking meter cash is now counted in the main office in the presence of Finance staffs.

#### 6.5.4.4 *Inadequate supporting documents for payments*

Sample review of the Council's cash payments showed that there were instances when payments were not properly initiated or supported the payments. Refer to Table 14 for details.

**Table 14: Payments with inadequate supporting documents**

Date	Cheque #	Payee	Amount	Audit observations
17.01.2013	20307	Cash cheque	2,280.00	<ul style="list-style-type: none"> <li>\$964.25 was not acquitted.</li> <li>Payments were for purchases of cooking ingredients, food and drinks for staff thanksgiving party.</li> </ul>
20.02.2013	2044	SA/CEO	200.00	<ul style="list-style-type: none"> <li>Travelling expenses to Suva.</li> <li>No acquittals attached, only a RR#14533 on 21/02/2013 for refund of \$50.</li> </ul>
28.03.2013	20604	Cash cheque	5,000.00	<ul style="list-style-type: none"> <li>\$499.50 was not acquitted.</li> <li>A \$600 payment also did not have any supporting documents, just a petty cash voucher. Payments were relating to handling over celebrations for the Mini Excavator machine from the Japanese Embassy.</li> </ul>

The Council has advised that the above matter is now rectified and all funds utilization must have supporting documents with justification of how the fund has been utilized.

#### 6.5.4.5 *No provision for doubtful debts taken up for rates debtors*

The Council did not make provision for doubtful debts for the financial year 2013. However, we noted that some rate payer's accounts had significant outstanding rate balances which have accumulated from prior years. Refer to Table 15 for examples.

**Table 15: Rate payers with significant debtor balance**

Assessment #	Rates balances as at 31 December 2013 \$	Details (as per discussion with Rates Officer)
0098	82,766.36	The lot was zoned as Agriculture on 22 January, 1998 and should be charged special rate. However, the council wrongly imposed general rate on the property, and interest was also accumulating on the account. Thus, the council will not be able to collect the rates balance of \$82,766.36. On 05/05/2014, the Council refunded \$35,000 to the rate payer, and the accumulated interest were adjusted from the account
1189	43,597.53	When the lease expired and was cancelled, the rates arrears were not paid by the rate payer. Council is awaiting Ministry's approval to write-off the debt. The property has been sold.

Assessment #	Rates balances as at 31 December 2013 \$	Details (as per discussion with Rates Officer)
1000	34,276.16	Awaiting Minister's approval to be cancelled from the system. The rate payer account does not exist due to sub-division.
1000/08	44,872.57	The account does not exist in the system. The Council had written to the Ministry of Local Government Housing and Environment on 21/08/2014 seeking approval to write-off the rates.
1000/09	48,031.03	The account does not exist in the system. The Council had written to the Ministry of Local Government Housing and Environment on 21/08/2014 seeking approval to write off the rates.
0296	81,917.58	The land was subdivided without members of the corporation consent and without rates being paid off. No legal action taken to try to recover the amount.
445	30,850.05	The land was subdivided but still exists in the system.
	<b>366,311.28</b>	

The council has indicated that it has never provided for doubtful rate debts and has not done provisioning till to date and believes that no matter how long the arrears, rates is still collectable and payable which is also passed to the new owner. Nevertheless, this matter has not been seriously looked at by the Finance Team and the Management and this matter will be dealt with in the future.

#### **6.5.4.6 Anomalies in property, plant and equipment (PPE)**

The following anomalies were noted from our review of Property, Plant and Equipment (PPE):

- (i) Board of Survey report was not produced for audit verification;
- (ii) The Council does not have documented Asset Capitalization Policy in place;
- (iii) No evidence exist for reconciliation of PPE general ledger accounts with Fixed Assets Schedule (FAS); and
- (iv) Some acquisition of plant and equipment were not updated in the fixed assets schedule.

The Council has informed that it has carried out the board of survey and submitted to Management for its review and decision. The Council also agreed that it does not have a Capitalization Policy and will work on this subject matter.

Additionally, the Council indicated that it will work towards properly accounting for all fixed assets purchased during the year and also work towards the reconciliation of the general ledger for property, plant and equipment and the Fixed Assets Schedule (FAS).

#### **6.5.4.7 Deferred income**

The Council received \$200,000 government grant in 2013 for upgrading of drains. This grant was recorded as deferred revenue in the Statement of Financial Position at the time of the receipt. The Council during the financial year transferred a sum of \$141,818 to income statement from this deferred grant. However, documentary evidence was not provided by the Council to substantiate this transfer.

The Council agreed to the issue and ensured that this will not be repeated in future.

#### **6.5.4.8 Variance between general ledger and listing for business license income**

Our review of business license revenue account showed variance of \$72,240 between general ledger and its subsidiary records. Refer to Table 16 for details.

**Table 16: Variance between general ledger and business license listings**

Revenue	General Ledger	Business license listing	Variance (\$)
Business License	381,877	454,117	72,240

The council has advised that monthly reconciliation is now being performed to reconcile the general ledger with subsidiary records.

#### **6.5.4.9 Absence of competitive quotations**

Our review of a sample of payments revealed instances where the Council did not obtain three quotations for purchases made. Refer to Table 17 for details.

**Table 17: Details of payments made without competitive quotations**

Date	Cheque No.	Description	Amount (\$)
14.1.13	20299	Supply of toilet paper rolls	791.78
18.02.13	20428	Hire of digger	6,210
6.3.13	20563	20 tonnes asphalt for car park maintenance	6,956.43
04.04.13	20624	Completion of plaster work, paint work, gutter work for Nadi market.	2,750
10.04.13	20647	To fabricate and supply side flashing and box gutter	2,880
22.04.13	20671	Purchase of bulbs and switches for market	3,986.50
30.04.13	20713	Payment for car parts	1,703.46
15.05.13	20789	Clening detergents	1,654.76
30.07.13	21020	Road markings	2,941.11
30.07.13	21022	Garden hoses, saw blade, toilet pan brushes, washer tap etc	4,491.22
19.11.13	21376	Purchase of air freshners	1,316.52
10.12.13	21435	Replacement of new engine from Japan for Mazda for EL 670	4,347.83
31.12.13	21485	New tyres	1,970.00

The Council has claimed that it always seeks three quotations unless due to some urgency three quotations are not sought than reasons are always mentioned in the documentations relating to the purchase.

However, we could not sight any documentary evidence to support the Council's claim.



## 7.0 Assessment of Internal Controls

### 7.1 Auditing internal controls

During our audits, we assess the design and implementation of controls to ensure that they are suitably designed to prevent, detect and correct material misstatements. Where audit strategy requires, we also test the operating effectiveness to ensure the internal controls are functioning as designed.

### 7.2 Internal controls

Internal controls are categorized against the following five components of internal control.

- **Control Environment (CE)** – is the set of standards, processes and structures that provide the basis for carrying out internal controls across the entity. These include commitment to integrity and ethical values, independence of management to exercise oversight for the development and performance of internal control, documented structures, reporting lines and appropriate authorities such as delegated levels of authority and responsibilities in the pursuit of the entity's objectives. It also includes commitment to attract, develop and retain competent individuals, and holding them accountable for their internal control responsibilities.

Examples of issues which fall under this category are ethical breaches, gaps in internal controls or controls are non-existent, individuals are not held accountable for breaches in control or entities code of ethics, staff recruitment, and training and professional development, performance assessment and succession planning matters.

- **Risk Assessment (RA)** – involves a dynamic process for identifying and analyzing risks to achieve the entity's objectives, forming a basis for determining how risks should be managed.

Examples of issues which would fall under this category are absence of risk management framework, operational including fraud and enterprise risks not identified, assessed and mitigated and impact of changes in business processes on controls not identified and assessed.

- **Control Activities (CA)** – these are established by policies and procedures to help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of an entity and at various stages within business processes, and over the technology environment.

*Examples of issues which would fall under this category are general controls relating to information technology, documentation of procedures which have in-built checks and balances which are aligned to the policies of the council. Specific control activities include those relating to authorization, performance reviews, information processing, physical controls, and segregation of duties.*

- **Information and Communication Control (IC)** – information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally and provides the entity with the information needed to carry out day-to-day controls. Communication enables personnel

to understand internal control responsibilities and their importance for the achievement of objectives.

Examples of issues which would fall under this category are reporting to Special Administrator and Ministry of Local Government on matters relating to internal controls.

- **Monitoring Activities (MA)** – on-going evaluations, separate evaluations or some combination of the two are used to ascertain whether controls are present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner.

Examples of issues which would fall under this category are self-assessment by councils to determine whether internal controls are present and function. This may include the establishment of independent internal audit functions within entities which would assist in identifying any gaps in controls.

A deficiency occurs when internal controls are unable to prevent, detect or correct errors in the financial statements or where controls are missing.

A significant deficiency is a deficiency that either or alone or in combination with multiple deficiencies may lead to a material misstatement in the financial statements. It requires immediate management action.

The table below outlines the rating we have used to assess internal controls.

Rating	Internal control assessment
● Effective	No deficiencies identified in internal controls
● Generally effective	Deficiencies identified in internal controls
● Ineffective	Significant deficiencies identified in internal controls

### 7.3 Quality of draft financial statements by entities

The extent of audit adjustments made to draft financial statements indicates the effectiveness of an entity's internal review processes before the accounts are submitted for audit.

We assessed the quality of financial statements by the number of audit adjustments made to the first draft of financial statements and the impact these adjustments had on the operating results or net assets of the council subject to our audit.

Rating	Quality of draft financial statements assessment
● Effective	No adjustments were required
● Generally effective	Adjustments on operating results/net assets were less than five percent
● Ineffective	Adjustments on operating results/net assets were more than five percent

### 7.4 Timeliness of draft financial statements for entities

To assess the timeliness of draft acceptable financial statements, we have compared the date the draft financial statements were received for audit after allowing for at least 30 days before the legislative deadlines for our audit.

Rating	Timeliness of draft financial statements assessment
★ Effective	Acceptable draft financial statements received within 60 days before legislative deadline
★ Generally effective	Acceptable draft financial statements received within 30 days before legislative deadline
★ Ineffective	Acceptable draft financial statements received less than 30 days before legislative deadline

## 8.0 Results summary

The following table summarizes our assessment of controls and the quality of financial statement preparing processes across the Councils for the 2013 financial year.

Council	Internal controls					Financial Statement Preparation	
	CE	RA	CA	IC	MA	T	Q
1. Lautoka City Council	★	★	★	★	★	★	★
2. Nadi Town Council	★	★	★	★	★	★	★
3. Rakiraki Town Council	★	★	★	★	★	★	★
4. Nausori Town Council	★	★	★	★	★	★	★

CE=Control Environment

RA=Risk Assessment

CA=Control Activities

IC=Information and Communication Control

MA=Monitoring Activities

T=Timeliness of draft financial statements

Q=Quality of draft financial statements

## Appendix A: Audits not completed as at 31 August 2018

Council	Year Last Audited				Comments
	Prior 2010	2011	2012	2013	
1. Suva City Council	✓				✓ 2011 audit is currently being finalized. ✓ 2012 – 2016 FS is yet to be submitted for audit.
2. Lami Town Council				✓	2014 FS submitted for audit.
3. Nadi Town Council				✓	✓ Audit of 2014 FS being finalised ✓ 2015 to 2016 FS yet to be submitted for audit.
4. Lautoka City Council					✓ 2014 audit is currently being finalized. ✓ 2015 draft financial statements received. ✓ 2016 FS is yet to be received.
5. Ba Town Council					2016 and 2017 draft FS received. Audit is yet to be carried out.
6. Tavua Town Council				✓	✓ 2014 accounts has been submitted for audit. ✓ 2015 and 2016 accounts yet to be received for auditing
7. Rakiraki Town Council				✓	2015, 2016 and 2017 draft accounts submitted for audit and audit yet to be carried out.
8. Nausori Town Council				✓	2014 – 2017 draft accounts have been submitted by the Council for audit.
9. Nasinu Town Council	✓				2010 - 2013 accounts has been submitted for audit.

Council	Year Last Audited				Comments
	Prior 2010	2011	2012	2013	
10. Levuka Town Council		✓			2012 accounts submitted for audit
11. Labasa Town Council					2016 and 2017 draft FS have been submitted for audit.
12. Savusavu Town Council	✓				2011-2015 amended accounts have been submitted for audit

## Appendix B: Audit Opinion Results

The following table presents the results of our audit of 2013 financial statements for Municipal Councils.

Entity	Legislative time frame	Date audit report signed	Audit opinion type
1. Lautoka City Council	31 August 2014	3/12/15	Modified
2. Nadi Town Council	31 August 2014	28/9/16	Modified
3. Rakiraki Town Council	31 August 2014	6/10/17	Modified
4. Nausori Town Council	31 August 2014	22/3/18	Modified

## Appendix C: Responses from Ministry & Councils

We provided a copy of this report to the Permanent Secretary for Local Government, Housing and Environment for comments. In addition, we provided extracts of the report to councils referred to in this report.

A copy of the request and responses received as at 26 September 2018 are shown below.

**OFFICE OF THE AUDITOR GENERAL**

**Excellence in Public Sector Auditing**



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Website: <http://www.oag.gov.fj>



File: 625/2

**INCONFIDENCE**

05 September 2018

Mr. Joshua Wycliffe  
Permanent Secretary  
Ministry of Local Government, Housing and Environment  
FFA House  
4 Gladstone Road  
SUVA.

Dear Mr. Wycliffe

**AUDIT REPORT ON MUNICIPAL COUNCILS FOR 2013**

Attached is the draft report on audit of Municipal councils for 2013 which I intend to submit to the Honorable Minister for Economy for tabling in Parliament. You will note that comments received from councils 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 15 September 2018. Comments provided would be included in an appendix to the report. Therefore, we will be grateful if any further comments are limited to one page only.

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

Yours sincerely

Ajay Nand  
**AUDITOR-GENERAL**

Encl.

**OFFICE OF THE AUDITOR GENERAL**

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Website: <http://www.oag.gov.fj>



File: 1300/1

05 September 2018

Mr. Jone Nakauvadra  
Chief Executive Officer  
Lautoka City Council  
169 Vitogo Parade  
LAUTOKA

Dear Mr. Nakauvadra

**AUDIT REPORT ON MUNICIPAL COUNCILS FOR 2013 – LAUTOKA CITY COUNCIL**

Attached is an extract of the draft report on audit of Lautoka City Council for 2013 which I intend to submit to the Honorable Minister for Economy for tabling in Parliament. You will note that comments received from the council has already been incorporated in the report where appropriate.

The extract from the draft report is submitted for your information and comments (if any) which we expect to receive by 15 September 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.



## NAUSORI TOWN COUNCIL

P.O. Box 72, Nausori, Fiji.  
Phone: 347 7133, Fax: (679) 340 0048  
Email: nausoritown@connect.com.fj

Address all correspondence to the Town Clerk

Your Ref:

Our Ref:

13th September, 2018

The Auditor General  
Office of the Auditor General  
Ratu Sukuna House  
SUVA

Dear Sir,

### **AUDIT 2013 – NAUSORI TOWN COUNCIL RESPONSE**

Reference is made to your letter dated 5<sup>th</sup> September, 2018 on the draft audit of Council 2013 accounts seeking council's response before submitting to Ministry of Economy.

The Council response is as follows:

#### **6.5.3**

#### **Weak system for financial reporting**

Council financial system is partially manual and electronic designed from year 2014 onwards.

All procurement related duties and monthly financial reporting are from manual system whereby excel records are being maintained for the following:

- Cash Book
- Creditors Summary & subsidiary
- Rates master subsidiary listing and records.
- Bank reconciliation
- Loan reconciliation
- Budget Vs. Actual spending
- Monthly reporting
- Fixed assets register
- Market daily collection and reports
- Daily collection report and cashier report
- Ratu Cakobau Park taking reconciliation

Records and data for the following are being maintained in MYOB from September 2015:

- Rates subsidiary, billing & receipting
- Taxi subsidiary, billing & receipting
- Business License, billing & receipting





- Rental Debtors subsidiary, billing & receipting
- General receipting

All payment vouchers are being and recorded in sequence with all proper documents such as 3 quotations, requisition, LPO and invoices relating to the respective payments.

Staffs are send on financial training based on the staff request and relative to work. These training are mostly provided by FNU or any other institute or bodies. Staffs are given proper duty statement detailing their respective areas of duties and responsibilities.

Council has decided to establish a full electronic financial together with other municipality for which dialogs and meetings are being held with the line Ministry.

Council's system for financial reporting (as mentioned above) has improved from 2014 to date which has been vetted and verified by the staffs of Auditor General's Office during the 2013 audit.

#### **No Supporting Documents provided for Capital Grants**

Major capital grant which was awarded to Nausori Town Council by Local Ministry was in relation to Inter-transport (New Market & Bus Station) project for which all legal documents were prepared and vetted by Solicitor General's office and funds were released by Ministry of Finance based on the documents (decree) provided by the Ministry of Local Government.

From year 2014, it has become mandatory by the Ministry of Local Government for any Capital Grants, a grant agreement is being prepared. Hence from 2014 onwards, any grants received by Nausori Town Council, Council does have a grant agreement.

#### **Absence of Contract Agreement**

Council has taken note of this and upgraded the same during 2014. Tenancy agreements have been prepared and signed off for all of our commercial tenants. Copy send to FRCA for stamping.

#### **Payroll**

From 2014 all recruits are entered into the payroll software upon employment regardless of the nature of employment. Proper reconciliation and controls are in place whereby payment vouchers are prepared according to the payroll report and verified by the officers.

All payments are made direct to bank accounts and no cash transaction are accepted. Payments to staffs are based on the report from HOD's and timesheet.

#### **Anomalies in Procurement of Goods & Services & Payments**

Current practice is in line with the procurement policy as per the Manual of accounts.

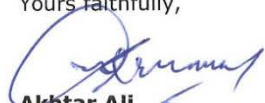
Three quotation are being taken for purchase of items less than \$10,000 and tender being called for over \$10,000.00. In case of payment less than \$10,000, whereby 3 quotation is not available, than HOD report and consideration with approval from CEO is being considered prior to purchase.

Requisition/LPO are prepared and signed off by Manager Finance and CEO prior to purchase of any supplies.

Payment vouchers are prepared after the service has been rendered and verified by the respective officer or HOD and ok for payment signed off. All payment vouchers are with supporting documents.

For award of any tender, the final report of the tender committee with relevant documents are being sent to Ministry of Local Government and Housing for final approval before the tender is awarded to the final bidder.

Yours faithfully,



**Akhtar Ali**  
**Chief Executive Officer**

## Appendix D: Glossary

Term	Definition
Abridged Financial Statements	Summarized version of the detailed financial statements.
Accountability	Responsibility of Municipal Councils to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws.
Accuracy	Correct amount for all transactions were recorded in correct accounting period.
Assessment for impairment	Assessment done to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use)
Audit evidence	A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
Audit Memorandum	Management Letter highlighting areas where improvements can be made by an entity following an audit.
Audit strategy	The strategy that sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.
Completeness	All transactions were recorded
Deferred income	Deferred income refers to money received by an entity before it provides the related goods or services to the customer.
Deficiencies	Failing, weakness or shortcoming
Depreciation	The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.
Estimated useful lives	Estimated life span of a depreciable fixed asset, during which it can be expected to contribute to an entity's operations
Existence	All account balances exist for assets, liabilities and equity.
Express an opinion	A written expression of the auditor's overall conclusion on the financial report based on audit evidence obtained.
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
Governance	Governance is defined as the manner in which those in vested authority uses its powers to achieve the institution's objectives,

Term	Definition
	including its powers to design, implement and innovate the organization's policies, rules, systems and processes and to engage and involve its stakeholders.
Governing bodies	A body of persons or officers having ultimate control. They are mainly constituted for the purpose of administration.
International Financial Reporting Standards	Standards adopted by Fiji Institute of Accountants for financial reporting by large and medium entities in Fiji.
Management	Those with the executive responsibility for conducting an entity's operations.
Management services	Organization and coordination of the activities of a business done by another person or entity outside the business.
Material misstatement	A significant difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
Materiality	This relates to the size or nature of the item or error judged in the particular circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users, taken on the basis of the financial statements.
Misstatement	A difference between the amounts, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Other significant matters	<p>Include control weaknesses which <i>could cause</i> or <i>is causing</i> severe disruption of the process or severe adverse effect on the ability of an auditee to achieve process objectives and comply with relevant legislation.</p> <p>It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.</p>
Reasonable assurance	A high but not absolute level of assurance
Revaluation	The action of assessing the value of something again.
Risks	The probability or threat of quantifiable damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action

Term	Definition
Sexennial valuation	Valuation carried out on the unimproved property of the rate payer every six years. This usually determines the current rate that needs to be levied to the rate payer.
Standards on auditing	International Standards on Auditing adopted by Fiji Institute of Accountants and applied by Office of the Auditor-General for audits carried out.
Municipal Council	Includes Towns, Cities and District and its establishment is defined by the Local Government Act.
Leasehold land	Real property held by a tenant (lessee) under a lease for a fixed term, after which it is returned to the owner (the lessor).
Valuation	The process of determining the fair value of an asset.
Value-adding	Financial or non-financial gains arising from improved compliance or mitigation of risks.
Work in progress	The total value of the materials and labor for unfinished projects.
Written- down value	The value of an asset after accounting for depreciation or amortization.