# STANDING COMMITTEE ON PUBLIC ACCOUNTS

## Examination of Audit Report on State-Owned Entities & Statutory Authorities for 2015

**PARLIAMENT OF THE REPUBLIC OF FIJI**
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## CHAIRPERSON'S FOREWORD

I am pleased to present the review report on the Audit Report for State Owned Entities and State Owned Authorities for 2015. This report has been majority contributed by the previous Public Accounts Standing Committee and reviewed and endorsed by the current Public Accounts Committee. This is my fourth (4) report as Chairman of the Standing Committee on Public Accounts.

The Parliament of the Republic of Fiji's authority pursuant to Standing Orders 110 (1) (c) and as directed by the Speaker of the House for the Standing Committee on Public Accounts to examine and thereafter submit the findings to Parliament of the Office of the Auditor General 2015 Annual Report.

This report was thoroughly examined by the present Committee in accordance with the directive by the Speaker of the House on Wednesday 13th February, 2019[1].

I wish to extend my appreciation to all the Honourable Members of the Committee who were part of the successful compilation of the bipartisan report namely the Hon. Joseph Nitya Nand, Hon. Vijendra Prakash, Hon. Aseri Radrodro, and Hon. Ratu Naiqama Lalabalavu.

The Committee also wishes to acknowledge the members of the previous Public Accounts Committee for their tremendous effort.

On behalf of the Committee I also extend my appreciation to the Secretariat Staff, namely Ms. Priya Chand, Mr. Mateo Lagimiri and Mr. Savenaca Koro for the dedication and commitment.

I commend this report to the Parliament.

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**Hon. Alvick Avhikrit Maharaj**
**Chairperson**

[1] Hansard Report dated Wednesday 13 February 2019, p 426.

# LIST OF RECOMMENDATIONS

**PROPERTY, PLANT AND EQUIPMENT**

***Water Authority of Fiji***

The Committee recommends that the Water Authority of Fiji should:

1. Put in place stringent internal controls in the maintenance and issue of inventories to avoid possible leakages. The Committee noted the actions taken by WAF in addressing the inventory issues however, recommends that quarterly or bi annually reviews are to be conducted by OAG.
2. Insure its significant assets included as part of property, plant and equipment and in particular those that form part of the Authority's water and distribution equipment.

***Energy Fiji Limited (formally known as Fiji Electricity Authority)***

The Committee recommends that the Energy Fiji Limited should:

1. Carry out a physical verification of all property, plant and equipment and make reports on verifications performed at all locations available for audit review.

**ISSUES RELATING TO FIXED ASSETS**

***Fiji Airports (formally known as Airports Fiji Ltd)***

The Committee recommends that Fiji Airports should:

1. Structure its Fixed Assets Register in a way that will enable the company to easily identify assets belonging to a specific section of the airport by location.

***Sugar Industry Tribunal***

The Committee recommend that the Sugar Industry Tribunal:

1. Carry out annual surveys of fixed assets to determine their physical existence and use.

**FIXED ASSETS NOT PROPERLY ACCOUNTED**

***Copra Millers of Fiji Limited:***

The Committee recommends that the Copra Millers of Fiji Limited:

1. Properly group plant, property and equipment into classes of assets.
2. Carry out impairment assessment of property, plant and equipment.

**GENERAL RECOMMENDATION**

The Ministry of Public Enterprise, through regular and active interaction with state-owned entities, should encourage them to prepare and submit quality draft annual financial statements for audit in a timely manner.

# 1.0 CHAPTER ONE - INTRODUCTION

The Parliament Standing Committee on Public Accounts undertook a review of the 2015 Audit Report on State-Owned Entities and Statutory Authorities (Parliamentary Paper No. 128 of 2017) which was tabled and referred it on 5th March, 2018. Following the dissolution of Parliament, this Committee Report had lapsed and was not tabled in Parliament in the first term (2014 - 2018)
Following the directive from the Speaker of Parliament, the abovementioned report was then referred to the Public Accounts Committee which now consists of new Members in this new Parliament Term (2018 - 2022)

## The Standing Committee on Public Accounts

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

The Committee comprises five (5) Honourable Members drawn from both the Government and the Opposition parties.

## Committee Members

The members of the Standing Committee on Public Accounts are:

- Hon. Alvick Maharaj MP (Chairman)
- Hon. Joseph Nand (Deputy Chairman)
- Hon. Vijendra Prakash (Member)
- Hon. Aseri Radrodro (Member)
- Hon. Ratu Naiqama Lalabalavu (Member)

The previous members of the Standing Committee on Public Accounts in the last term were:

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

## Overview

This report presents our analysis of the internal controls of state-owned entities and other significant matters highlighted by the Auditor-General which may have an impact on the operations of the entities in future if left unaddressed. The aim of the examination is threefold:

- First, to scrutinise the audited accounts of relevant state-owned entities and identify anomalies;
- Second, to assess what measures relevant entities have taken to rectify anomalies raised by the Auditor-General and improve internal controls; and
- Third, to make recommendations to Government to establish corrective measures.

The Committee considered evidence provided by each state-owned entity and also sought advice from the Office of the Auditor-General.

The Committee found significant work has been undertaken to address issues raised in the audit. It is clear that the entities have taken the audit review process seriously and instigated processes to implement accepted recommendations. Some recommendations will take time to fully action or are being addressed through the implementation of larger projects.

## Inquiry Process

The Committee resolved at its meeting on 9 May, 2018 to commence an examination of the 2015 Audit Report on State-Owned Entities and Statutory Authorities and discussed and planned its strategy for receiving submissions.

The Committee noted that entities which had been issued an unqualified audit opinion (clean opinion) had various control issues some of which had been recurring in the previous Audit Reports and warranted the Committee's scrutiny. As such, the Committee resolved to hear from relevant agencies which had been issued both qualified and unqualified audit reports.

Furthermore, the Committee noted that the Office of the Auditor-General has adopted a new format to report on the annual accounts of state-owned entities. As such, in order to obtain further clarification, the Committee resolved to hear from the Office on the reasons for the change in report format. Subsequently, the Committee met in the Parliament Complex from 22nd May to 13th June, 2018 to receive evidence from various state-owned entities on their 2015 annual accounts.

A full list of submission authors and details of witnesses who appeared at the hearings can be found at Appendix One. Copies of the submissions are available on the Parliament website at: www.parliament.gov.fj. Discussion of the audits examined is detailed in subsequent chapters of the report.

All resources were provided by the previous Committee which was used to prepare the report.

# 2.0 CHAPTER TWO - COMMITTEE'S OBSERVATIONS AND AREAS OF CONCERN

## 2.1 Audit Opinions on Financial Statements of Respective Entities

As at 31 October 2017, a total of 29 audit opinions were issued by the Auditor-General on the 2015 financial statements for the various entities.

### 2.1.1 Modified opinions

Modified opinions were issued on five of the 2015 financial statements completed for the various entities with one entity issued a disclaimer of opinion.

The Committee noted that audit opinions of a number of entities was modified due to a circular issued by the Ministry of Public Enterprises on Cabinet Decision No. 357 of 2012 which required accounting for all government grants received from 1 January 2011 as capital contributions. The Committee further noted that OAG advised the Ministry that this was a departure from the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) *Section 24 – Government Grants* and International Accounting Standard (IAS) 20 - *Accounting for Government Grants and Disclosure of Government Assistance* which require government grants to be recognised in profit or loss as income when grant proceeds are receivable or when performance conditions are met.

Consequently, on 16 March 2016, the Ministry advised all state-owned entities to account for the grants as required by the IAS.

The Committee observed that the affected entities have made the required adjustments in the 2016 financial statements.

### 2.1.2 Unmodified opinions

Unmodified opinions were issued on 23 or 79% of the 2015 financial statements audited for the various entities. This reflects very positively on the entities.

## 2.2 Common Findings

The Committee noted the following common findings across entities:

- Fixed assets were carried at zero book values although these assets were used by entities in their operations. Consequently, the depreciation expense has not been charged on these assets.

- Physical verification of fixed assets was not carried out to determine their existence, condition and use. As a result, it was not possible to determine that all assets belonging to entities were used to generate economic activity for the respective entities.

- Some entities did not have the desired number of board members to promote good corporate governance practises.

- Fixed Asset Registers were not updated on a timely basis or did not contain the required information which could lead to misstatement of fixed asset balances.

- Fixed assets relating to core-business of certain entities were not insured hence increasing business continuity risk in times of disasters.

## 2.3 Delays in completion of audits

The table below shows the status of audits as at 31 October 2017.

| Type of entity | Total no. of. Entities Audited | Audits up-to-date | Audits delayed | % Delayed |
|---|---|---|---|---|
| Government Commercial Company[3] | 9[2] | 5 | 4 | 44 |
| Commercial Statutory Authority | 4 | 3 | 1 | 25 |
| Re-organized entities | 3 | 2 | 1 | 33 |
| Statutory Authorities | 28 | 15 | 13 | 46 |

The Committee noted that audit of six Government Commercial Companies, Commercial Statutory Authorities and Re-organized entities have been delayed. Similarly, audits of about half of statutory authorities are also yet to be completed. It was observed that audits of state-owned entities have not been completed primarily due to the following:

- Delay in submission of draft accounts for audits or draft accounts submitted were incomplete;

- Relevant information/records not provided for audit on a timely basis; and

- Entities deciding to address issues raised in draft audit reports and resubmission of financial statements for audit.

## 2.4 Entities not Subject to Audit by the Auditor-General

The Committee expressed concern that other significant findings arising from audit of entities for which the Auditor-General is no longer the external auditor cannot be reported to Parliament under the current legislative framework.

[2] Assets Fiji Limited established on 13 November 2015

[3] Auditor-General no longer auditor for Fiji Hardwood Corporation Ltd

# 3.0 CHAPTER THREE – AUDIT REPORT ON STATE-OWNED ENTITIES & STATUTORY AUTHORITIES 2015

## SECTION 1 FIJI BROADCASTING CORPORATION LIMITED (FBCL)

### 1.1 AUDIT OPINION

The audit of the 2015 accounts of the Fiji Broadcasting Corporation Ltd. resulted in the issuance of a modified audit opinion. The qualification was due to the following:

IFRS/IAS 20.3 "*Accounting for Government Grants and Disclosure of Government Assistance*" defines government grants as assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

The government grants received by FBCL meet the definition of a grant in that they constitute government assistance provided to enable FBCL to broadcast in the outer stations and local programmes.

By following the Government's circular requiring FBCL to treat the government grant received as a capital contribution, FBCL did not in comply with the International Accounting Standard.

However on 16 March 2016, Ministry of Public Enterprises advised all state-owned entities to account for the grants as required by the standards.

**Entity Responses**

FBC's 2015 financial statements were compiled in accordance with IFRS. As audit noted, except for the effects of the departure from IAS 20, the financial statements were prepared in accordance with IFRS and other statutory requirements and hence gives a true and fair view of the financial position of the Company as at 31 December 2015.

The departure from IAS was solely due to the effect of cabinet decision on treatment of government grants and/or special funding as capital contribution. ***Reference: Cabinet Decision Number: 357 Dated: Thursday 11th October, 2012***. The paper states that "*cabinet, by written opinion agreed that as recent grants and/or special funding given must be treated as Capital contribution for the possibility of conversion into equity even if it mean retrospectively*."

In compliance with the above decision, FBCL reclassified the financial statements going back to financial year 2010 and the government grant was then treated as additional capital injection into the company instead of revenues in Profit and Loss statement. This divergence from the International Accounting Standards formed the basis for qualification of the financial statements for FBC and other SOE's. IAS 20 "*Accounting for Government Grants and Disclosure of Government Assistance*" requires government grants provided to compensate the Company for expenses incurred to be recognized in profit or loss as other income on a systematic basis in the same period that the expenses are recognized.

Subsequently in 2016, the Ministry of Public Enterprises released circular on treatment of Government grants (06/2016) based on the cabinet's decision (59/2016). It stated that the previous decision (357/12) has been rescinded and informs that accounting treatment for any recent grants received by SOE's should be guided by IFRS, that is IAS 20 where it meets the definition of government grant or assistance. Further, MPE circular (09/2016) specified the effective date for revised treatment as 8th March 2016.

Henceforth, FBC has adopted the revised treatment of recording government funding as revenues in Profit and Loss statement as per IFRS standards. Changes were only reflected in 2016 financial statements and in years that follow since then.

Finally, taking into consideration the cabinet decision (02/2016), all FBCL reports are prepared in compliance with IFRS and IAS.

## 1.2 OTHER SIGNIFICANT MATTERS

### 1.2.1 Impairment Assessment of Plant and Equipment

**Audit Findings**

- Audit noted that FBCL did not carry out an assessment for impairment of its plant and equipment in 2015. There was no documentation of impairment that had been prepared to support the carrying value of the Corporation's network equipment.

- Audit further noted that the digitization of network is expected to occur by 2020 and management changed the depreciation rates relating to analog network equipment from 20% to 6.67% to ensure that these assets are fully depreciated by 2020. However, later management re-evaluated these assets and identified an adjustment of $78,927 in the current period to ensure that the assets are fully depreciated at 6.67% by 2020.

**Entity Responses**

At each financial reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised in profit or loss and is reflected in an allowance account. When the company considers that there are no realistic prospects of recovery of assets the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised then the previously recognised impairment loss is reversed through profit or loss.

The management's assessment of impairment amount involves making a judgment at the particular point in time about inherent uncertain future outcomes of events or conditions. At that time, the most likely event that would had a relative impact on the value of the FBC's core assets was the ongoing government's Digital spectrum project. The government's initiative to fully digitalize Television in Fiji was going to phase-out analog equipment in the market. As the project was progressing in 2015, the FBC had very limited information at year end as to which equipment would be made redundant. This information would only be available towards the completion of the project. The project consultants indicated that the whole country would turn digital before 2020 as per international standards. Both analog and digital signals would run simultaneously until such time that analog is switched off and digital becomes the only platform capable of broadcasting television in Fiji.

The FBC's analog equipment will have zero value by the end of financial year 2020. As such, in year 2015, the FBC adjusted its depreciation rates on all analog equipment that will be affected by the digital TV project. This was reflected in the Company's 2015 financial statements. On same note, a revaluation of all analog equipment will be carried out by the company once the project finishes and revalued amounts will be brought to account (if any) based on their usage specifications.

Thus, the FBC did not record any provision for impairment in 2015 as the management reasonably believed that no indicators for impairment existed.

This year (2018), projected date for complete switchover from analog to digital was made public, which is June 2019.

# SECTION 2 POST FIJI LIMITED (PFL)

## 2.1 AUDIT OPINION

The audit of the 2015 accounts of the Post Fiji Ltd. resulted in the issuance of a modified audit opinion. The qualification was due to the following:

- Included in the cash and cash equivalents balance is the Remittance between Post Office (RBPO) accounts of $772,243 which is a clearing account for cash transfers between Post Masters. The company did not carry out reconciliations of this account with Post Masters cash account. Consequently, audit was not able to determine whether cash and cash equivalents of $4,875,508 were fairly stated in the financial statements.

**Entity Responses**

Post Fiji management has addressed this issue. A thorough reconciliation was conducted and matter has been resolved. Management has also put in place corrective measures and necessary control with timely reconciliations now taking place.

## 2.2 OTHER SIGNIFICANT MATTERS

### 2.2.1 Anomalies in business engagement with an International Mail Logistic Company

**Audit Findings**

Audit noted the following anomalies in the above engagement:

- There was no agreement between Post Fiji Limited and the mail logistic company for the use of company's logo;
- There was no Board resolution on the approval of use of company's logo by the mail logistic company; and
- As at 31 December 2015, the logistic company owed Post Fiji Limited a sum of $4,637,730.37 or 44% of the company's total receivable balance. In addition, the sum of $3,501,005.21 owed by this company has been outstanding for more than 120 days.

**Entity Responses**

The management of Post Fiji takes note of the anomalies and is taking remedial steps to recover outstanding debt from the international mail logistics company. PFL is in the process of engaging an Australian based law firm to handle litigation pertaining to this business. The proposal to engage this law firm has been submitted to the Board for its decision after due diligence has been carried out by management. The Board is also looking into this matter independently and will revert to management after it is satisfied with its checks.

### 2.2.2 Insufficient number of Board Members

**Audit Findings**

Audit noted that currently the company's Board is comprised of only two members which is not sufficient for good corporate governance.

**Entity Responses**

This matter has been resolved by the Ministry of Public Enterprise. The Board membership composition for PFL is provided below:

| NAME | POSITION |
|---|---|
| Mr Lawrence Tikaram | Board Chairman |
| Mr Pankaj Singh | Director |
| Mr Fazrul Rahman | Director |
| Mrs Manjula Dayal | Director |

## SECTION 3 PUBLIC RENTAL BOARD (PRB)

### 3.1 AUDIT OPINION

The audit of the 2015 accounts of the Public Rental Board resulted in the issuance of a modified audit opinion. The qualification was due to the following:

- Included in government equity under the Statement of Changes in Equity is government grant totaling $16,295,950. This is a departure from IAS 20 "*Accounting for Government Grants and Disclosure of Government Assistance*" which requires government grants provided for the purchase or construction of assets to be recognised initially as deferred income and then recognized in profit or loss as other income on a systematic basis in the same period that the expenses are recognized.

**Entity Responses**

This issue has been resolved as of 8th March 2016 by the cabinet to rescind their initial decision that all grants shall be recognized as IAS 20 as deferred revenue. In 2016, no capital grant was received by PRB. However, PRB received capital grant in 2017 for Simla Low Cost Housing Project, Lautoka and this has been treated in accordance to International Accounting Standard 20 as deferred Revenue.

### 3.2 EMPHASIS OF MATTER

**Audit Findings**

A long-term loan of $9 million was borrowed by government from the EXIM Bank of China in 2010 to finance the construction of the Raiwai Housing Project, Suva. A grace period of five years has been provided on principal repayment. However, interest is payable together with commitment and management fees during the grace period. The Public Rental Board has not reconciled its records with that of the Ministry of Economy to take into account interest already paid by the government.

**Entity Responses**

This issue has been resolved. PRB had verified and paid all interest for the grace period except for $37,464.09 of interest remaining and PRB will pay this by end of this month. PRB started to pay Principle and interest from 2016 after verifying the letters given by Ministry of Economy.

### 3.3 OTHER SIGNIFICANT MATTERS

#### 3.3.1 Rental flats not insured

**Audit Findings**

Audit noted that some rental properties and community halls were not insured due to the inability of the Board to cater for the insurance premiums.

**Entity Responses**

This issue has been resolved. All Rental properties of PRB are insured for $30million since October 2017.

### 3.3.2 Review of Property, Plant and Equipment

**<u>Audit Findings</u>**

Audit noted the following anomalies in property, plant and equipment:

- There was no evidence to indicate that the Board carried out an assessment for impairment of its assets. Assets totaling $8.15 million had zero written down value recorded in the Fixed Asset Register although these assets were still used for Board's activities; and

- Buildings (Raiwai Project 1997) valued at $142,744 was recorded under property, plant and equipment although the buildings have been demolished.

**<u>Entity Responses</u>**

This issue has been resolved. PRB engaged Property Solution in 2017 to carry out the valuation for PRB properties.

## SECTION 4 MARITIME SAFETY AUTHORITY OF FIJI (MSAF)

### 4.1 AUDIT OPINION

The audit of the 2015 accounts of the Maritime Safety Authority of Fiji resulted in the issuance of a modified audit opinion. The qualification was due to the following:

- MSAF in accordance with a circular issued by the Ministry of Public Enterprises on Cabinet Decision No. 357 of 2012, accounted for all government grants received from 1 January 2011 as capital contributions. This is a departure from the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) *Section 24 – Government Grants* which requires government grants to be recognised in profit or loss as income when grant proceeds are receivable or when performance conditions are met.

**Entity Responses**

A modified audit opinion was issued on the 2015 financial statement because MSAF was abiding by the circular issued by the Ministry of Public Enterprises on Cabinet Decision No. 357 of 2012 where all Government Grant received was to be treated as Capital Contributions. However, the OAG did not recognise this treatment of Government Grant as this deviated from the standard accounting practice

However, the above circular was then revised in 2016 and all treatment of grants was in accordance to accounting standards from 1 January 2016. MSAF does not expect a qualified audit opinion in their 2016 financial statements.

**Office of the Auditor-General's Responses**

The issue related to the two circulars issued by Ministry of Public Enterprises in 2012 and 2016 regarding the treatment of Government grants. The 2012 circular required the grant to be recorded as capital contribution and this Government directive conflicted with the International Accounting Standards. While the audit report is based on international accounting standards, the treatment of the grant deviated from this and that was why the OAG had qualified the audits.The entities changed their accounts to reflect the grant as revenue as per the second circular issued in 2016 which was the reason behind the audit opinion being modified.

### 4.2 EMPHASIS OF MATTER

#### 4.2.1 Tax Exemption Status

**Audit Findings**

- The financial statements of the Authority states that it is exempted from income tax under Section 55 of the Maritime and Safety Authority of Fiji Act 2009 for the first three years commencing 1 January 2011. Consequently, the tax exemption period should cease from 1 January 2014. The Authority did not maintain appropriate documentary evidence to support its continuous tax exemption status.

**Entity Responses**

It was resolved that MSAF should forward a cabinet paper to request for amendments to Section 55 of the MSAF Decree in relation to “Exemption from Taxes & Duties”. The State Obligatory Service also applies to MSAF.

The entity shall be exempted from paying income tax for a longer period of time. MSAF has not been generating profit over the years. This is due to the nature of service it provides to its stakeholders. Furthermore, low fees and charges is the key factor in low profit/no profit.

### 4.2.2 Ships Systems Database Software

**Audit Findings**

- The Authority invested a sum of $163,385 for the purchase and installation of a Ships System Database Software in 2015. The development of the software was incomplete.

**Entity Responses**

The issue of the software has been resolved has been resolved by the software developer. However the delay is from MSAF’s side to populate the data to enable the required feature to work properly. Of the 2000+ files not uploaded in the new system, 1254 has been resolved to date. MSAF officials have advised that this shall be completed in a few months’ time and the lack of man power is hindering the process.

## 4.3 OTHER SIGNIFICANT MATTERS

### 4.3.1 Underutilisation of Capital Grants/No Board

**Audit Findings**

Audit noted that capital grants disbursed by Government for various purposes such as construction of light houses and purchase of lanterns were underutilized in 2015. Of the $3 million received, only 15% was utilized as at 31 December 2015 leaving a balance of $2.5 million as unutilized. In addition, a board is yet to be appointed to manage the affairs of the Authority.

**Entity Responses**

The issue has been resolved as MSAF Board has now been appointed.

### 4.3.2 Marine Spill Pollution Advisory Committee not established

**Audit Findings**

Audit noted that the Marine Spill Pollution Advisory Committee has not been established as required by the Marine Transport Decree and the Marine (Pollution Levy) Regulation.

**Entity Responses**

MSAF Board has endorsed the appointment of the Marine Spill Advisory Committee (MSAC) in the first meeting held on 4 May 2018 subject to approval of the line Minister for Infrastructure & Transport. MSAF has submitted its request for the formal appointment of the MSAC to the Minister on 21/05/18 as per the requirements under the Section 155 of the Maritime Transport Act 2016 for the establishment of the MSAC.

## SECTION 5 WATER AUTHORITY OF FIJI (WAF)

### 5.1 AUDIT OPINION

The audit of the 2015 accounts of the Water Authority of Fiji resulted in the issuance of a modified audit opinion. The qualification was due to the following:

1. Included in financial statements of the Authority as revenue are water and sewerage charges of $32,410,653 and Trade Receivables of water and sewerage charges amounting $10,228,694. Receipts from these charges are government revenue which is deposited directly in the consolidated fund account of government. International Accounting Standards (IAS) 18 has set two criteria which need to be met for revenue recognition. One of the criteria requires that economic benefit associated with the item of revenue should flow to the entity.

   Thus, the Authority has not met the recognition criteria for recording these charges as revenue. Consequently, revenue and receivable are not fairly stated in the Statement of Comprehensive Income and Statement of Financial Position, respectively.

**Entity Responses**

WAF has defended its position stating that it has an arrangement with the government, in its capacity as the Authority's shareholder, to pay the remittances from its customers into the consolidated fund account. The Authority's view is that this should be treated as either a loan to the government or a distribution to the government (as the sole shareholder of the Authority).

**Office of the Auditor-General's Responses**

In order for revenue to be recognised, there needs to be proper controls in place as a requirement under the International Accounting Standards (IAS) 18. The qualification of the OAG audit opinion has been recurring since 2012. There should be a disclosure note in the financial statements before the revenue is remitted into the CFA. There was no need to acquire a legal opinion on the treatment of revenue as there is a clear guideline that has been outlined under the IAS 18 for revenue recognition for entities such as WAF.

2. Opening balance of Property, Plant and Equipment amounting to $1,888,909,608 for the year ended 31 December 2010 was not subject to valuation at the time of the transfer to Water Authority of Fiji. The valuation of these assets was carried out in 2006. Consequently, it was not possible to confirm the valuation of the opening balance of property plant and equipment when it was transferred in 2010.

**Entity Responses**

WAF is currently maintaining an excel sheet on the recording of its assets.

The Director of Lands and WAF are awaiting Legal Opinion from Solicitor General's office advice on Transfers of Assets on I-Taukei Lands and Freehold Land while the Authority is applying leases to Lands Department for Assets on State Land.

Currently, monthly fixed asset general ledger reconciliation to fixed asset register is prepared and reconciled. In 2018/19, the Authority plans to conduct a full Board of survey and upload its results in the asset management module in Sage 300 ERP system. The valuation of the assets will be carried out once all the assets have been transferred to the Authority so that the valuation costs are conducted holistically and do not have further cost implications.

## 5.2 EMPHASIS OF MATTER

### 5.2.1 Internal Controls on Inventories

**Audit Findings**

- Internal controls in the maintenance and issue of inventories need to be strengthened to avoid possible leakages.

**Entity Responses**

The following improvements have been implemented:

- New Inventory Management Policy was prepared in 2017 to cater for the new improved process of stores.
- Quarterly stock takes performed on all stores and making store-man accountable for his/her results;
- Up-skilling technical / functional competencies of the stores staff. In 2017/18 FNU and USP training was provided to staff and continuous on the job training.
- Monthly General ledger inventory reconciliation.
- Improvements to stores facilities and storage areas. Additional storage space being looked at.
- Updating of work order forms to account for inventory usage and
- Additional security controls in place on inventory movements.

### 5.2.2 Project Monitoring System

**Audit Findings**

- Project monitoring system and its documentation needs to be improved to further enhance efficiency and effectiveness in delivery of project works.

**Entity Responses**

Effective monitoring of project progress is conducted by the Quality Assurance unit in collaboration with the Planning, Design and Construction units. Respective files for individual projects are progressively compiled when projects are issued job numbers to begin implementation.

From a project finance perspective, works in progress (WIP) are reconciled on a periodic basis and project delivery reports are produced for project monitoring purpose. These reports are submitted to senior management on a monthly basis.

## 5.3 OTHER SIGNIFICANT MATTERS

### 5.3.1 High provision for water and sewerage rates debtors

**Audit Findings**

Audit noted that the Authority's provision for rates debtors is 70% of the total water and sewerage rates debtors which is significant and indicates that the Authority may not be in a position to recover the debts from its customers. Refer to table below for details.

| Account | 2015<br>$ | 2014<br>$ | Change<br>$ |
|---|---|---|---|
| Gross Trade receivables | 34,297,130 | 32,424,030 | 1,873,100 |
| Provision for doubtful debts | 24,068,436 | 22,391,604 | 1,676,832 |

Eventually these debts could become bad resulting in write-offs and eventual loss of revenue to government.

**Entity Responses**

The following are some of the procedures that have been implemented by WAF to avoid accumulation of arrears:

- Mandatory requirements in place for new customer registration as TIN number, phone contact, email address .For new customers registered in the new billing system the TIN number is used as the primary identifier. Hence customers relocating to new residence, the meters are plugged off from the former site and arrears is moved to the new account in the new location. In additional to this for customers whose meters are disconnected customers are required to register the full details before meters are reconnected.

- Getting invoices out quicker to the customers - In March 2015 WAF established a new billing system "GENTRACK" to facilitate efficient billing of customers, better monitoring of debts and follow-up on arrears. In addition to this WAF also increased its billing communication modes with SMS and E – billing apart from postage. Bill Info card was also launched that enables WAF's valued customers to easily access their account details with just one swipe with any of our authorized agents such as MH, Post Fiji. This results in quicker information to customers and ultimate timely settlement of bills.

- Establishment of debt recovery unit – involved in doing follow up with the customers to remind them of the outstanding balance. Call reminders, email reminders, formal communication and meetings are some of the measures that debt recovery team carries out when doing follow up with customers.

- Various modes and setting up terms to encourage prompt payments - WAF has several agents where customers can easily make payments. In additional to this customers' with large debt balances and under financial difficulties have been allowed to make payment arrangements to ease the financial burden. Failure to adhere to the agreed repayment schedule will result in disconnection.

- Disconnection of meters - WAF enforcement team is continuously involved in timely disconnection of meters for account in arrears. Previously meters had stock cork installed and a disconnection of meters was basically turning off the stock cork. WAF noted instances where customers turn on the stock cork and continue to use water resulting in the accumulation of the arrears. This has been a real challenge and main cause of the huge bills in the customer's account. To prevent this WAF has begun to install a new device "Lockable value". With the use of lockable value WAF has managed to control the accumulation of bills in customers account and enable them to make payments for the debts.

- Continuous meter replacement – WAF in involved in the replacement of all cease and under registering meters. This will reduce the incidents of estimate bills, incorrect estimate billing and refusal to pay estimates.

- Lease agreements to be formalized between WAF and landowners whereby WAF would pay lease rentals to landowners for water source utilized whilst landowners would be required to pay water rates.

### 5.3.2 Authority's plant and equipment not insured

**Audit Findings**

Audit noted that significant assets included as part of property, plant and equipment and in particular forming part of the Authority's water and distribution equipment were not insured.

**Entity Responses**

In 2018, the Authority identified its critical plant and equipment sites and in the process of finalising call of tender for insurance purposes.

The Director of Lands and WAF are awaiting Legal Opinion from Solicitor General's office advice on Transfers of Assets on iTaukei Lands and Freehold Land while we are applying leases to Lands Department for Assets on State Land.

## SECTION 6 LAND TRANSPORT AUTHORITY (LTA)

### 6.1 AUDIT OPINION

The audit of the 2015 accounts of the Land Transport Authority resulted in the issuance of an unmodified audit opinion.

### 6.2 EMPHASIS OF MATTER

#### 6.2.1 Registration of leasehold land titles under LTA

**Audit Finding**

- Leasehold land is not held in the name of the Authority. The buildings on the land have been incorporated in the books of account of the Authority on the principal assumption that the titles of the land will be registered under the Land Transport Authority in the future.

**Entity Responses**

The authority has written to the Director of Lands to apply for the land titles. To date, no response has been received despite numerous follow ups.

The authority had requested the Director of Lands for the formalisation of the LTA Lease Titles for the following properties currently being occupied by LTA:

| Location | Duration of Occupancy | Remarks |
|---|---|---|
| DP 8715 – Valelevu | Since 2000 | This has been transferred but left is the Title |
| SO 1210 – Lautoka | Since 2000 | This has been transferred but left is the Title |
| DP 8876 – Labasa | Since 2000 | This has been transferred but left is the Title |
| Sigatoka Cuvu | Since 2000 | Still with PWD – pending (title and lease) |
| DP 2002 – Ba | Since 2010 | This has been transferred but left is the Title |

**Office of the Auditor-General's Responses**

OAG advised that the entity should work towards obtaining the title of the land as the authority already has the lease with them. With regards to the titles transfer, there is a clear provision outlined in the Land Transport Act 1998.

### 6.2.2 Transactions relating to national road safety and funded through donor funds from 2011 – 2014

**Audit Finding**

- Transactions relating to national road safety and funded through donor funds from 2011 to 2014 have not been accounted for in the financial statements of the Authority since the dissolution of the National Roads Safety Council in 2010 by way of LTA Decree No. 41 of 2010.

**Entity Responses**

The Committee was also informed that this issue has been resolved. The 2011 – 2014 donor funds transaction were taken up in the books of the authority on 31 December 2014.

# SECTION 7 SUGAR INDUSTRY TRIBUNAL

## 7.1 AUDIT OPINION

The audit of the 2015 accounts of the Sugar Industry Tribunal resulted in the issuance of an unmodified audit opinion.

## 7.2 EMPHASIS OF MATTER

**Audit Findings**

Attention of the Tribunal was drawn to a sum of $328,360 was owed by Fiji Sugar Cooperation (FSC) for funds utilized by the Tribunal to finance the Near Infrared Project (NIR) which is part of the Cane Quality Project administered by Fiji Sugar Cooperation. The Tribunal utilized operating government grant to fund the project without prior approval from Ministry of Sugar.

**Entity Responses**

The Committee was advised that the Tribunal’s Office has received the sum of $328,360 from the Fiji Sugar Corporation (FSC) for funds utilised by the Tribunal to finance the Near Infrared Project (NIR).

The Committee was also informed that the Near Infrared Project has now been shelved due to the financial difficulties the Sugar Industry is facing.

## 7.3 OTHER SIGNIFICANT MATTERS

### 7.3.1 Issues relating to fixed assets

**Audit Findings**

Audit revealed that the following issues highlighted in prior years were yet to be addressed:

- Fully depreciated with zero written down value are still in use by the Tribunal. Useful lives of these assets have not been revised to ensure proper accounting of the assets; and
- Annual survey of fixed assets has not been carried out to determine their physical existence and use.

**Entity Responses**

The Tribunal has taken corrective actions on this and has done a revised Financial Manual which has incorporated all of the above issues including the Annual Board of Survey, Fully Depreciated Assets and Capitalisation Policy, etc.

Also, the Committee was informed that the Tribunal is working towards addressing this issue and may take some time. Also, the Committee was guaranteed that this will be completed before the 2018 audit.

# SECTION 8 FIJIAN ELECTIONS OFFICE (FEO)

## 8.1 AUDIT OPINION

The audit of the 2015 accounts of the Fijian Elections Office resulted in the issuance of an unmodified audit opinion.

## 8.2 EMPHASIS OF MATTER

**Audit Finding**

The Fijian Election Office restructure of its financial management system is yet to be fully implemented to produce financial statements which are compliant with the International Financial Reporting Standards for Small and Medium Entities. Hence, the Office has been preparing its annual financial statements on cash basis of accounting.

**Entity Responses**

- FEO financial management system was implemented in August 2016 and Finance Staff were trained in June and July 2016. The implementation of the finance system was in line with the Government financial year that falls from August to July so that balances brought forward for year ended 31 July 2016 could be updated in the FEO financial system.

- The FEO engaged KMPG (following a tender process) to facilitate the transition and in particular:
  a. The transition to IFRS for SMEs in March 2017
  b. To review the financial reports for year ended 31 July 2016
  c. To review its finance policy and assets to be in line with IFRS reporting standards

- KPMG completed its services to the FEO and the FEO finance team prepared the Annual Financial Statements for the financial year 31 July 2017. This has been subjected to audit by the OAG and the Office has received its draft audit for comments.

- The Office has engaged KPMG to assist in the compilation of the Finance Statements to ensure that the transition is properly done. At the same time, FEO Finance team will be able to bolster their capacities.

The Office's intention is to ensure that the transitions from international standards are done strategically with the assistance from internationally recognised institution such as KPMG. This will ensure that the financial records of the FEO are accurate, comprehensive and transparent.

## SECTION 9 FIJI HIGHER EDUCATION COMMISSION (FHEC)

### 9.1 AUDIT OPINION

The audit of the 2015 accounts of the Fiji Higher Education Commission resulted in the issuance of an unmodified audit opinion.

### 9.2 EMPHASIS OF MATTER

**Audit Finding**
The Commission did not carry out a comprehensive survey of the institutes registered with it in 2015.

Therefore, the Commission was not in a position to determine if all institutes operating in Fiji in 2015 were registered and paid their registration fees.

**Entity Responses**
The Commission has put in place a Monitoring & Evaluation Framework (M&E Framework) to ensure that this issue is addressed. The M&E Framework ensures that all institutions must submit their application fee together with their application for either for recognition, registration or review of the institution before the Commission can process their application. This process also ensures that all fees due are collected before the process occurs.

Additionally, the Commission's Quality Assurance Team carries out site visits to all registered and partially registered applicants which the team, at the same time maintains a register.

The Committee was also advised that there are 32 registered institutions recorded with the Commission and 45 that are partially registered.

### 9.3 OTHER SIGNIFICANT MATTERS

#### 9.3.1 General control deficiencies

**Audit Findings**
Audit noted control deficiencies in the following areas:

- Processing of payments
- Procurement of goods and services
- Processing of bonus payments and salary increments to staffs
- Processing of payroll and accountable advances
- Cash receipting and banking

**Entity Responses**
The Commission has approved and implemented its Financial Operations Policy in October 2017. The implementation of this policy does not only address the issues above but strengthens the overall internal control and transparency of the Commission. This policy is enforced strictly under the new leadership of the Commission.

## SECTION 10 NATIONAL SUBSTANCE ABUSE ADVISORY COUNCIL (NSAAC)

### 10.1 AUDIT OPINION

The audit of the 2015 accounts of the National Substance Abuse Advisory Council resulted in the issuance of a Disclaimer of Opinion due to the following:

- The financial statements of the Council were required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities ("IFRS for SMEs"). The Council was yet to comply with IFRS for SMEs as required for general purpose financial statements.

**Entity Responses**

The Council has improved on the internal controls and continues to do so. In this instance, the salary reconciliation and other accounts are prepared and updated regularly.

The Council is also in discussion with ANZ Bank to change to electronic payment from the current manual process which the Council uses. This will increase efficiency and reduce costs.

The Council is working to comply in full with the required Financial Reporting Framework. The Council has trained two officers in using MYOB which is now being used with updating financial information on the MYOB from 2016 onwards to meet the standard and to transition from the Cash Basis of Accounting to Accrual Based Accounting.

The Committee was informed that the 2016 Accounts will be submitted to the Office of the Auditor General in July and its reporting standard is in accordance with the IFRS for SMEs.

## SECTION 11 AIRPORTS FIJI LIMITED (AFL)

### 11.1 AUDIT OPINION

The audit of the 2015 accounts of then Airports Fiji Limited (AFL) resulted in the issuance of an unmodified audit opinion. At the time of the PAC interview in 2018, the entity has been renamed to Fiji Airports effective from 30th May, 2018.

### 11.2 OTHER SIGNIFICANT MATTERS

#### 11.2.1 Long outstanding work in progress items

**Audit Findings**

Audit review of the Work in Progress (WIP) account revealed that certain items which were first included in WIP in 2013 and prior years and have not been transferred to property, plant and equipment subsequently. The major item, amounting to $997,870 is in relation to the Nausori airport upgrade which is entirely dependent on the successful transfer of the land title to AFL.

Another major item of $199,050 sitting in WIP is in relation to the new Savusavu terminal building. This amount was paid upfront to the contractor to start work on the project. However, no work has been done on the project to date.

**Entity Responses**

This issue is in relation to the Savusavu terminal building upgrade contract and Nausori airport lights/fittings. The Management Accountant confirmed that both the issues relating to the Work in Progress account have been resolved.

i. Savusavu terminal building upgrade contract –

   The contract to design and build a new terminal was awarded to Pacific Affordable Homes in 2010. The contract went into dispute due to quality and payment issues. The present management had to correct these through a legal action against the contractor, Pacific Affordable Homes, which ultimately resulted in the contract being terminated in July 2017.

ii. Nausori Airport Lights/Fittings –

   These items were purchased for replacement of runaway lights at Nausori Airport in 2011. Subsequent to the purchase of these items, the Government as part of its growth plans for Nausori to Deuba corridor held discussions with FA to explore extending the runaway for larger aircrafts. At this stage it was a prudent business decision to hold on to the light upgrade project to avoid wastage when the runaway itself was upgraded to a different scope.

These lights were taken into FA's stock in 2016 and have been fully utilised for Labasa runway.

FA now has strict procedures in place in terms of the payments to contractors. The payments to contractors are made upon progress.

**Office of the Auditor-General's Response**

OAG confirmed that the issue relating to the Savusavu terminal building upgrade contract has been resolved.

### 11.2.2 Accounting for assets - Nadi International Airport Modernization Project

**Audit Findings**

The Nadi International Airport is currently undergoing significant renovations, which commenced in October 2014. However, the company did not record disposal or write off of any items of property plant and equipment that became obsolete as a result of this project.

### 11.2.3 Assets with zero written down values

**Audit Findings**

Included in the fixed asset register are assets with an original cost amounting to $25 million which have been fully depreciated (zero written down values). Majority of these assets relate to plant and equipment which are still being used in the company's operations.

### 11.2.4 Fixed Assets Verification

**Audit Findings**

Audit review of the Fixed Assets Register (FAR) noted that it is not structured in a way that would enable the company to easily identify assets belonging to a specific section of the airport by location.

**Entity Responses**

Issues 11.2.2, 11.2.3, 11.2.4 are interrelated and it was important that the timing of this exercise coincided with completion of the Nadi Airport Modernisation Project (NATMP).

NATMP involved demolition of portions of existing structure, modification of existing structures, building new structures and many more. As such, the fixed assets of FA had to be looked at holistically following the completion of this project to account for:

i. Assets write-offs for the structures or components demolished;
ii. Itemising individual assets items into asset categories;
iii. Independent asset valuation exercise;
iv. Independent physical verification of assets;
v. Updating of FAR and taking up required accounting entry.

The NATMP reached practical completion on 29 April 2017. After due diligence process, Erasito Beca was engaged in October 2017 to carry out independent valuation exercise of all assets. The valuation was received in March 2018.

In order to correctly reflect the valuation report into the fixed assets register and incorporate the required accounting entries that meets the external audit requirements under IFRS, FA has by a tender process invited local professional accounting firms to carry out this scope. The scope will include physical verification of assets, reconciliation of valuation report with FRA. At the end of the exercise, the independent accounting firm will provide a report giving assurance of the work done which will form the key document based on which the external auditors will carry out their year-end audit clearance and finalisation of allocation of values for Property, Plant and Equipment.

The Erasito Beca Report has increased the assets valuation of FA from $242.2 m to $440.6 m after NATMP.

## SECTION 12 Fiji Electricity Authority (FEA)

### 12.1 AUDIT OPINION

The audit of the 2015 accounts of the then Fiji Electricity Authority (FEA) resulted in the issuance of an unmodified audit opinion. At the time of the PAC interview in 2018, the entity has been renamed to Energy Fiji Limited (EFL) effective from 16th April, 2018.

### 12.2 OTHER SIGNIFICANT MATTERS

#### 12.2.1 Fixed Assets Verification

**<u>Audit Findings</u>**

Audit review of the entity's fixed assets schedules/registers indicated that physical verification of all property, plant and equipment was not carried out during the year. Also, reports on verifications performed at certain locations were not available for audit review and verification.

**<u>Entity Responses</u>**

Due to the huge monetary value of FEA's assets base $1.3b as at 31 December 2015, the exercise of physically verifying these assets cannot all be done in one year and is exhaustive exercise. EFL has taken a stage approach to physically verify these assets in view of the limited resources the entity has. The entity has commenced with this activity in 2016 by starting with the physical verifications of all computers and motor vehicles. All computers have been tagged while vehicles have been tagged in FAR against the vehicle registration number. In 2017, EFL had undertaken a physical verification of all lands and buildings. Most of the lands where buildings are sitting on them have been traced back to their original titles and the land pegged against these titles. EFL envisaged to have this exercise completed by this year (2018) as some missing titles will require a legal process to be followed. After the land & building verification has been completed, EFL will be next verifying all of its generation's assets. The verification should not be an issue as the entity as the entity normally receives updates on the performance of each power station daily. Without the power station operating or it has been impaired the customers will be calling FEA complaining of interruption to power supply. The final assets for verification that is planned for 2019-2021 will be a huge exercise which is to physically verify most of their network assets. Again, the test will be similar to the generation assets in the sense that if any of the network asset is not performing or has impaired then customers will be complaining about interruption in power supply.

The breakdown of the asset value by asset categories is tabulated below:

| Description | Cost ($m) | Status of Physical Verification |
|---|---|---|
| Land & Buildings | 125.1 | In progress |
| Generation Assets | 571.7 | Will be carried out in 2018. This value is associated with the Monasavu and Nadarivatu Hydro Schemes. |
| Network/Generation Assets | 587.1 | Will be carried out in 2019/2020. Majority of this cost is associated with the 132kV, 33kV, 11kV Transmission/Distribution Lines and 132kV/33kV/11kV Substations. |
| Computer, Furniture & Fittings | 28.3 | Verification of computers has been completed |
| Motor Vehicle | 17.0 | Done |
| **Total Fixed Assets** | **$1,329.2m** | **Excluding Capital WIP and Capital Spares** |

Some of the above assets were acquired by FEA when it was established in 1966 and were taken up into the Fixed Asset Register as consolidated assets and not on an individual basis. These are the assets that will be very difficult to verify.

# SECTION 13 FIJI ROADS AUTHORITY (FRA)

## 13.1 AUDIT OPINION

The audit of the 2015 accounts of the Fiji Roads Authority (FRA) resulted in the issuance of an unmodified audit opinion.

## 13.2 OTHER SIGNIFICANT MATTERS

### 13.2.1 Discrepancies in accounting of fixed assets

**Audit Findings**

Audit noted that the Authority does not carry out reconciliations to reconcile the written-down value of donated assets to the amortized value of deferred income. Consequently, deferred income reconciliation recorded for donated assets are not adjusted on a timely basis for revaluation and disposal of donated assets.

In addition to the above, the Fixed Asset Register (FAR) has not been updated to record the revaluation performed for property, plant and equipment.

**Entity Responses**

A tender was called for the ERP system and submitted to FRA Board for review. During this time, FRA's Principal Consultant MWH left without notice, all processes performed by the MWH was brought in-house. The process has significantly changed.

The scope that was proposed in the ERP has changed therefore the tender was cancelled. The organisation underwent a restructure.

There was no need to call for a tender without having a full process mapped out as there would be a lot of variation.

Currently, FRA is in its first phase of organisation change and mapping the processes for each department.

FRA plans by end of third quarter of 2018/2019 Financial Year to call a tender for ERP system with proper processes being mapped out. The ERP system is very expensive and would require experienced staff in this field to implement this project.

## SECTION 14 COPRA MILLERS OF FIJI LIMITED (CMFL)

### 14.1 AUDIT OPINION

The audit of the 2015 accounts of the Copra Millers of Fiji Limited resulted in the issuance of an unmodified audit opinion.

### 14.2 OTHER SIGNIFICANT MATTERS

#### 14.2.1 Fixed assets not properly accounted

**Audit Findings**
Audit review of property, plant and equipment revealed the following anomalies:

- Property, plant and equipment were not properly grouped into classes of assets;
- Impairment assessment of property, plant and equipment was not carried out. A number of assets had negative written down values in the Fixed Assets Register; and
- Major renovations and alterations to existing buildings were separately recorded instead of being added to the cost of existing assets.

**Entity Responses**
Outlined below are the actions and plans that the company has undertaken/intends to execute to address the audit issues:

1. Grouping

CMFL will review the FAR and properly group the assets into their correct classes. Property, plant and equipment as at 31 December 2017 will be correctly presented.

2. Impairment Assessment and Negative Book Values

The FAR has been updated in respect to assets with zero written down values.

The entity has carried out a full physical verification of property, plant and equipment. The written down value of fixed assets have also been reviewed to ensure it correctly reflects it carrying values as at 31 December 2017.

Listed below are the major assets which will require replacement or disposal and CMFL's action plan in respect to these assets:

1. **Crude Coconut Oil Expellers** – the entity has purchased a new machine from a renowned company in India – Kumar Metal Industries who have also supplied machines to various companies in Fiji.

   The machines are expected to be installed by 31 July 2018.

2. **Sales of Idle Storage Tanks** – the entity has called for Expression of Interests (EOIs) for the sale of Storage Tanks however, no offers were received hence, it was decided to approach individuals and companies interested and sell the storage tank.

3. **Surplus Land** – the entity has done the land valuation and has called for EOIs for sale of land and have received offers below the valuation amount. The entity has now engaged the Real Estate Agent for sale of surplus land.

4. **Mooring System/Buoy** – currently, the buoy is being used by Pacific Energy with a service fee paid to CMFL. The asset was fully depreciated and revalued to $5,000 in the FAR.

3. <u>Major Renovations</u>

The entity had separately capitalised major renovations and alternation works to buildings for ease of identification and reference for internal purpose. CMFL will maintain this for its internal purpose, however, will provide updated register, grouping these together with the initial cost of building for audit purpose.

## SECTION 15 FIJI DEVELOPMENT BANK (FDB)

### 15.1 AUDIT OPINION

The audit of the 2015 accounts of the Fiji Development Bank resulted in the issuance of an unmodified audit opinion.

### 15.2 OTHER SIGNIFICANT MATTERS

#### 15.2.1 Allocation of provision on loan accounts

**Audit Findings**

Audit review of the provision for loan accounts indicated that the bank maintains a sum of $16.9million as an “unallocated specific account” to cover under provision in specific account balance which is consistent from prior year. As a result, excess provision was noted which was adjusted.

**Entity Responses**

The Bank currently follows the Reserve Bank of Fiji’s *“Banking Supervision Policy Statement No. 3; Guidelines for Loan Classification and Provisioning for Impaired Assets”*. The objective of this policy is to set a minimum guideline relating to loan classification, provisioning and other procedures that financial institutions should have in place in relation to the management of their loans and advances portfolio.

In the case of Fiji Development Bank, same is practiced whereby the Bank carries out provisioning on general and specific levels as required by the Banking Supervision Policy Statement. In addition, the Bank tries to take a conservative approach in stressing its provisions to accommodate for risky portfolios and avoid shocks for possible losses arising from inadequate provisions in future.

This issue was resolved with the External Auditors during 2017 external audit and the resolution was that the Bank is complying with RBF guideline and is having a close monitoring of its provisions.

#### 15.2.2 Customer credit risk rating did not agree to loan risk grades

**Audit Findings**

Audit noted that the Customer Credit Risk rating of a large number of loan accounts did not agree to the loan risk grade.

**Entity Responses**

The Bank is exploring the idea of having fully automated Customer Risk Rating functionality in its new Core Banking Software as the current Banking Software cannot cater for enhancements. Status in obtaining new Core Banking Solution is in the tender stage.

While the Bank is in the process of fixing this in the new Core Banking Solution, internal workflows and controls have been set in place in terms of independent checker and reviewer process to eliminate such compliance issue.

### 15.2.3 Deficiencies in loans and advances process control

**Audit Findings**

Audit indicated that out-dated valuation reports were maintained in loan files and a number of loan application forms were not placed in the file.

**Entity Responses**

The Bank is in full implementation phase of having its loan accounts reviewed and updated on any pending documents and security values.

Some of the strategies implemented by FDB in order to control the loans and advances process are:

i. Creation of Regional Managers position to monitor loan appraisals, disbursements and monitoring of loans post settlements to ensure customer files updated and records are maintained.
ii. Segmentation of Credit Risk Approval Division into Credit Risk Approval – Agriculture, Credit Risk Approval – SME's and Credit Risk Approval – Corporate for quality checks and approval of loans. These divisions are to ensure that any loans before being approved adhere to Banks lending policies and guidelines.
iii. Provide regular and refresher trainings to staff to improve their competency levels and to help eliminate such compliance issues.
iv. Internal Audit has been assigned to carry out independent review, checks and spot audits to have an effective loans and advances process in place.
v. Increased level of delegation for approval for bigger loans.

## SECTION 16 FIJI DEVELOPMENT BANK NOMINEES LIMITED (FDBNL)

### 16.1 AUDIT OPINION

The audit of the 2015 accounts of the Fiji Development Bank Nominees Limited resulted in the issuance of an unmodified audit opinion.

### 16.2 OTHER SIGNIFICANT MATTERS

#### 16.2.1 Management services provided without valid contract

**Audit Findings**

Audit noted that FDB Nominees Ltd (FDBNL) has been providing management services to Fiji Investment Corporation Limited (FICL) since August 2013 without a valid contract.

In addition, a sum of $373,750 which was owed by FICL under a contract it had with FDB Nominees Ltd for the period 2010 to August 2013 was yet to be paid.

**Entity Responses**

The Government in its Cabinet meeting on 9th June 2009 agreed that the operations of Fiji Investment Corporation Limited (FICL) be managed by FDB Nominees Limited (FDBNL). Hence in August 2010, a Management Agreement was signed between Ministry of Industry & Trade (MITT) (owner of FICL), FICL and FDBNL to manage the operations of FICL. The management agreement was valid for a period of three years ending August 2013.

FICL was physically handed over to FDBNL on July 2011. As per the Management Agreement, FDBNL was required to manage the operations of the company, which includes liaising with the seven different companies where FICL had financial interest and to make recommendations to the FICL Board for further investment or disinvestment decisions.

Most of these companies were not operating and had not paid any interest/dividends or settled their outstanding debt as per agreement, as there were no follow ups since the year 2006. Since the handover to FDBNL in July 2011, FDBNL has liaised with all the companies and held discussions regarding the settlement of the outstanding debt with FICL. The interim role of FDBNL was to manage the operations of FICL and recover the investments.

FDBNL has successfully managed to collect a total of $2.158M in form of repayments from the companies and through prudent management of FICL term deposits has also attained gross interest income of $0.709M. Some of these companies had also submitted discounted debt settlement offers. FDBNL was also instrumental in the sale of Tosa Bussan (Fiji) Limited, which was sold for $8.720M in June 2017 under mortgagee sale by the ANZ bank, and FICL received proceeds of $3.938M.

Upon the expiry of the contract, negotiation for its renewal stalled as there was no Board appointed hence FDBNL felt it was prudent to continue managing FICL in good faith until the contract was renewed. Upon the appointment of the Board, FDBNL wrote to the newly appointed FICL Board Chairman, Mr David Kolitagane on 4th July 2017, providing a brief update on the management of FICL since handover and requested that our outstanding management fees be paid. The management fees recognized by FDBNL of $ 373,750.00 is related to the period for which there was a valid management agreement to August 2013 however it should be noted that a total fee of $920,000.00 is outstanding relating to the work done by FDBNL up to June 2016.

## SECTION 17 HOUSING AUTHORITY OF FIJI

### 17.1 AUDIT OPINION

The audit of the 2015 accounts of the Housing Authority of Fiji resulted in the issuance of an unmodified audit opinion.

### 17.2 OTHER SIGNIFICANT MATTERS

#### 17.2.1 No policy on inventory provisioning

**Audit Findings**

There is no formal policy or guidelines on the calculation of provisions for inventory by the Authority.

**Entity Responses**

The Authority is complying with the guideline for calculating of provisions for inventory and has a balance of 20 lots appearing in stock with the provisioning value of $389K as at April 2018. The Committee was informed that its Management is progressively making a submission to the Board for a write-off.

The draft policy is being reviewed for submission and endorsement to the Board while Management is adopting the procedure.

## SECTION 18 FILM FIJI

### 18.1 AUDIT OPINION

The audit of the 2015 accounts of the Film Fiji resulted in the issuance of an unmodified audit opinion.

### 18.2 OTHER SIGNIFICANT MATTERS

#### 18.2.1 Assets with zero written-down values

**Audit Findings**

Audit noted that majority of office equipment used by the Film Fiji have been fully depreciated and have zero written down values in the Fixed Assets Register. The useful lives of these assets were not re-assessed as at 31 December, 2015.

**Entity Responses**

Film Fiji has since rectified the matter raised in the 2015 audit report and disposed of the items with zero written down values in the FAR.

Furthermore, the current policy for Property, Plant and Equipment meets accounting standards.

# APPENDICES

# Appendix One – List of Submissions and Witnesses

1. Fiji Broadcasting Corporation Limited
    - Mr Riyaz Sayed-Khaiyum – Chief Executive Officer
    - Mr Vimlesh Sagar – Chief Financial Officer

2. Post Fiji Limited
    - Mr Raiyaz Ahmed – Head of Finance
    - Mr Isaac Mow – Head of Retail & Marketing
    - Mrs Saleen Prasad – Financial Controller

3. Public Rentals Board
    - Mr Pat Veu – Acting General Manager
    - Ms Shalin Lata – Manager Finance and Administration
    - Mr Maloni Daurewa - Manager Properties

4. Maritime Safety Authority of Fiji
    - Mr John Tuinidau, Chief Executive Officer
    - Mr Navin Kamlesh, Manager Finance

5. Water Authority of Fiji
    - Mr Michael Lal, Chief Financial Officer
    - Mr Nemani Waqanivalu, General Manager Construction, Planning & Design
    - Mr Samanmal Ekanayake, Chief Operations Officer
    - Mr Pita Waqanivalu, Manager Finance
    - Mr Sekove Uluinayau, General Manager Customer Service
    - Ms Joana Kaloucava, Project Accountant
    - Ms Talei Ligairi, Manager Legal, Board Secretary

6. Land Transport Authority
    - Mr Irimaia Rokosawa, General Manager Finance and Administration
    - Mr Mavilesh Chand, General Manager Legal, Policy & Business Development
    - Ms Makitalena Drova, Manager Standards and Engineering
    - Mr Deo Reddy, Manager Enforcement
    - Mr Faiyum Ali, General Manager Technical Operations
    - Ms Ashika Narain, Manager Finance
    - Ms Neelam Nand, Management Accountant
    - Mr Muneshwar Dutt, Finance Accountant
    - Mr Peni Kikau, Manager Regulation

7. Sugar Industry Tribunal
    - Mr Timothy Brown, Registrar

8. Fijian Elections Office
    - Mr Mohammed Saneem, Supervisor of Elections
    - Mr Sanjeshwar Ram, Director Corporate Services
    - Ms Nina Filipe, Finance Coordinator
    - Mr Arin Kumar, Public Relations Officer

9. Fiji Higher Education Commission
    - Mr Milan Raniga, Senior Accountant
    - Mr Epi Rawalai, Senior Communications Officer

10. Airports Fiji Limited
    - Ms Sanjana Mishra, Financial Controller
    - Mr Vineet Naidu, Financial Analyst
    - Mr Rohit Prasad, Senior Management Accountant

11. Fiji Electricity Authority
    - Mr Bobby Naimawi, Chief Financial Officer and Acting CEO
    - Mr Shalen Prasad, Manager Finance
    - Mr Umesh Chandra, Chief Information Officer

12. Fiji Roads Authority
    - Mr Robert Sen, Chief Financial Officer
    - Ms Sainiana Rokovucago, Stakeholder Relationship Officer
    - Ms Zafiya Shamim, Public Relations Officer

13. Copra Millers of Fiji Limited
    - Mr Raj Sharma, Chairman
    - Mr John Deo, General Manager

14. Fiji Development Bank
    - Mr Mark Clough, Chief Executive Officer
    - Mr Saiyad Hussain, General Manager Finance and Administration
    - Ms Panjata Gurdayal, Media & Community Relations Officer

15. Housing Authority of Fiji
    - Mr Poasa Verevakabau, General Manager and Administration
    - Mr Iliesa Rakaseta, General Manager Land & Housing Development

- Mr Isikeli Navuda, General Manager Technical Services
- Mr Ramesh Chand, General Manager Lending

16. Film Fiji
    - Mr Dallas Foon, Chief Executive Officer
    - Mr Sakiusa Bolaira, Board Director
    - Mr Jone Tikoca, Accountant

17. National Substance Abuse Advisory Council
    - Mr Manoa Senikarawa, Chief Executive Officer
    - Ms Alison Burchell, Permanent Secretary Education, Heritage & Arts
    - Mr Timoci Bure, Deputy Secretary Primary & Secondary Education
    - Mr Sukhendra Donish Lal, Director Finance
    - Mr Pritesh Kumar, Senior Accounts Officer

**Office of the Auditor-General Representatives Present During Evidence Sessions**

- Mr Dineshwar Prasad, Director Audit
- Mr Moshin Ali, Director Audit
- Mr Ilaitia Varani, Manager Audit