FBCL COMMENTS 2015 AUDIT REPORT – Clarification of Issues

Management Comments

1. **Page 17: Modified audit opinions**

FBC's 2015 financial statements were compiled in accordance with International Financial Reporting Standards (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based on the cabinet's decision ***(59/2016).*** It stated that the previous decision ***(357/12)*** has been rescinded and informs that accounting treatment for any recent grants received by SOE's should be guided by International Financial Reporting Standards (IFRS), that is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.

2. **Page 27 (6.4.4): Impairment Assessment of Plant and Equipment**

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 pre-tax 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.