

# **PUBLIC ACCOUNTS COMMITTEE**

**[Verbatim Report of Meeting]**

**HELD IN THE**

**COMMITTEE ROOM (EAST WING)**

**ON**

**THURSDAY, 24TH MAY, 2018**

**VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS HELD IN THE COMMITTEE ROOM (EAST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON THURSDAY, 24TH MAY, 2018 AT 9.29 A.M.**

**Submittee/ Interviewee:**      **Airports Fiji Limited (AFL)**

**In Attendance:**

- |    |                    |   |                             |
|----|--------------------|---|-----------------------------|
| 1. | Ms. Sanjana Mishra | - | Senior Financial Accountant |
| 2. | Mr. Vineet Naidu   | - | Finance Analyst             |
| 3. | Mr. Rohit Prasad   | - | Senior Accountant           |

**Office of the Auditor-General**

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| 1. | Mr. Moshin Ali | - | Director of Audit |
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DEPUTY CHAIRPERSON.- Honourable Members, members of the Secretariat, representatives from the media, Mr. Moshin Ali from the Office of the Auditor-General (OAG) and in particular, we welcome the resource personnel from Airports Fiji Limited (AFL); I welcome you all to the meeting of the Public Accounts Committee dated Thursday, 24th May, 2018.

We are here to discuss audit issues on State-Owned Entities (SOEs) and Statutory Authorities (SAs) of 2015. I believe four pertinent questions were sent out in regards to the issues that the Committee wishes to discuss with your entity and those are:

1. Long outstanding work in progress items.
2. Accounting for assets – Nadi International Airport Modernisation Project.
3. Assets with zero written down values.
4. Fixed Assets Verification.

Once again, I welcome the team from AFL and we will give the opportunity to the designated speaker to introduce your team, provide a brief background of your entity for the benefit of our new Member, Honourable Dr. Mere Samisoni.

She is a new member to the Committee so in respect of her presence, just a bit of background information on the entity and from there the designated speaker can lead us through the written submission that has been provided. Thank you.

MS. S. MISHRA.- Good morning, Deputy Chairperson and Honourable Members of the Public Accounts Committee. Representing AFL is Mr. Rohit Prasad, Senior Management Accountant and Mr. Vineet Naidu, Financial Analyst. Mr. Naidu will start off with the history of AFL and then Mr. Prasad will clarify on issues raised by the Public Accounts Committee.

DEPUTY CHAIRPERSON.- So, I believe there will be a collective effort from all of you who will be providing some responses, thank you. We will start with a bit of brief introduction of the entity.

MR. V. NAIDU.- Thank you, Deputy Chairperson and Honourable Committee Members. I will start off with the background of AFL.

AFL is a fully Government-owned commercial company and we were established on 12th April, 1999 under the Public Enterprises Act 1996. It was formerly known as Civil Aviation Authority of Fiji and we report to the Auditor-General and the Minister for Public Enterprises for commercial performance and civil aviation policy matters.

We own and operate Nadi International Airport, Nausori International Airport and 13 other domestic outer islands airports on behalf of the Government. The other segment of our business is Air Traffic Management. We control the flights in the Nadi Flight Information Region which is the upper airspace including; Fiji, Tuvalu, New Caledonia, Kiribati and Vanuatu which is about 6 million square kilometres.

I will elaborate a little bit on our performance for 2015. Year 2015 was another record-breaking year for us, we had \$91.53 million in Operating Revenue which was one of the highest recorded so far; and our Operating Expenditure was \$45.88 million, which was the lowest within the last five years (\$45.8 million).

We paid out a dividend to Government of about \$15 million. Our passenger numbers had increased by about 5 percent to a total of 1.85 million passengers and our Net Operating Profit before Tax was \$46.04 million. I think with that I will hand over to our Senior Management Accountant to verify on some of the issues which were raised.

DEPUTY CHAIRPERSON.- Thank you, Sir, for those brief introductory remarks. Honourable Members, do you have any questions?

HON. A.M. RADRODRO.- Deputy Chairperson, in terms of revenue generations, the makeup of the revenue generation at AFL is a result of your performances over the years?

MR. V. NAIDU.- Our major segments are aeronautical revenue which comprise of the landing revenue and all aircraft-related revenue, and we have the air navigation revenue. Air navigation revenue which comes from our overflight charges, as well as information that we provide to aircrafts in our controlled airspace, we get revenue from there. Thirdly, the commercial revenue which we get from our tenants at the airports.

HON. MEMBER.- (Inaudible)

MR. V. NAIDU.- Yes, the reason why we have seen such an increase in revenue was because of our air navigation revenue in 2015. Our submission to the Fijian Competition and Consumer Commission (FCCC) for a review of charges for our aeronautical charges had been successful. As you may be aware, our aeronautical revenue is regulated so we cannot change at will, it is regulated by the FCCC. We had new commercial arrangements coming up which resulted in ....

HON. DR. M.T. SAMISONI.- The revenue that you collect from people coming in because we were trying to bring it up at that time but we were not allowed to, has that increased?

MR. V. NAIDU.- The Departure Tax?

HON. DR. M.T. SAMISONI.- Yes, Departure Tax, has that attracted more or less because of the increase of people coming in?

MS. S. MISHRA.- With Departure Tax, out of the total, AFL receives \$10 per share per passenger, so there is an increase due to passenger numbers, however not a significant portion.

HON. DR. M.T. SAMISONI.- Not much, less than that.

MS. S. MISHRA.- Our major has been the commercial restructure done in 2015 and also aeronautical charges.

HON. A.M. RADRODRO.- Departure tax now is .....

MS. S. MISHRA.- Departure Tax is collected through the tickets by Fiji Revenue and Customs Services (FRCS) and through that, \$10 per share is given to AFL.

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

MS. S. MISHRA.- The arrangement previously, airlines were still collecting and then submitting to AFL and then AFL submits to Government.

HON. A.M. RADRODRO.- ...(inaudible) \$10 previously or now \$10 is a new rate?

MS. S. MISHRA.- The \$10 has been there, I think way back in 2010.

HON. DR. M.T. SAMISONI.- Still much the same?

MS. S. MISHRA.- Yes.

DEPUTY CHAIRPERSON.- But the revenue has considerably increased because of the commercial restructure.

MS. S. MISHRA.- Yes.

DEPUTY CHAIRPERSON.- Last year when the CEO came, he had explained on how the rental income has greatly increase because of the so-called renovations happening. I think now the rental charges are based on sale figures, and I stand to be corrected on that.

MS. S. MISHRA.- Yes, some of it is fixed rental and some of it is based on sale. The maximum guaranteed amount is also there to ensure that we do not lose out on the revenue.

HON. DR. M.T. SAMISONI.- My question was just on Departure Tax.

DEPUTY CHAIRPERSON.- Oh, it was on Departure Tax, I think it still remains the same, the contribution.

MS. S. MISHRA.- Yes.

DEPUTY CHAIRPERSON.- So, certain percentage of it goes to Government, \$10 of it goes to....

MR. V. NAIDU.- \$10 comes to AFL.

DEPUTY CHAIRPERSON.- I think there were three allocations.

MS. S. MISHRA.- Yes, I think Civil Aviation Authority also receives \$5.

DEPUTY CHAIRPERSON.- Yes.

Honourable Members, if there are no introductory questions, we will move straight to the written submission.

MR. R. PRASAD.- Honourable Deputy Chairperson and Honourable Members, as per the questions provided, I will just answer the questions.

On Item 1 – Long outstanding work in progress items; there are two long outstanding items and this was related to the Savusavu Terminal Building Upgrade and the lights for Nausori Airport, and both had been resolved.

For the Savusavu Terminal Building, the contract was legally terminated in July 2017. Initially, the contract was to design and build a new terminal and that was awarded to Pacific Affordable Homes in 2010. There was some dispute on payment issues and based on that, the Management had to correct that through a legal action and the contractor - Affordable Homes, which resulted in the contract being terminated in July 2017 so that has been resolved.

For Nausori Airport lights, those were purchased for the replacement of the runway lights at Nausori Airport in 2011. Subsequent to this purchase, the Government with its growth plans had a meeting with Fiji Airports to explore extending the runway for larger aircrafts. At that stage, it was prudent for business to hold the decision to upgrade the lights, to avoid wastage when the runway itself was upgraded to a different scope.

As we speak, those lights were replaced with some of the default lights that were at Nausori and also the leftover items were taken in our inventory in 2016 and those items have been fully utilised at the Labasa runway. . So Item 1 has been fully resolved.

For Items 2 to 4, those three items are inter-related and the solution for those was to have a re-evaluation of fixed assets to solve this problem. However, the timing of this exercise was to coincide with the completion of the Nadi Airport Terminal Modernisation Project (NATMP).

The NATMP was completed in April 2017. Since October 2017, we have engaged Erasito Beca Consultants Ltd to conduct a re-evaluation exercise and in March 2018 we have received a report from Erasito Beca Consultants Ltd on the re-evaluation of fixed assets for Fiji Airports.

What we have done is, we have reconciled that report with our Fixed Assets Register and now we are engaging an independent accounting firm to review the assets reconciliation we have done so that we meet the accounting standards and this will be completed by the end of June 2018. So we are in the process of completing those three issues.

DEPUTY CHAIRPERSON.- Honourable Members, any questions?

HON. DR. M.T. SAMISONI.- My question is in relation to the Savusavu Terminal in the write up, you said that you had paid upfront and then here in this one, you said you have resolved that, the contract was terminated in July. So what happens with the pay upfront money?

MR. R. PRASAD.- The contract was legally terminated in 2017, we had the Court case from 2011. Initially, we paid \$199,000 as advance. As per the contract, we had to pay 15 percent advance

deposit, plus we paid about \$86,000 for some of the cement panels that they have provided for that. In total, we paid \$199,000 and to that, we had a performance bond paid by the contractor of \$75,000 so less that, it comes to \$124,000 which we have to take into expense when fully resolving this issue.

HON. DR. M.T. SAMISONI.- You really also lost out.

MR. R. PRASAD.- Yes, we lost out.

HON. DR. M.T. SAMISONI.- How do you prevent that happening in the future? I mean, you go through a tender process and I know Government does tender process too. I was just surprised that money was paid. That is all in the contract?

MR. R. PRASAD.- This was quite an old issue, it was in 2010 and 2011 so none of the people who had made the decisions are in AFL at the moment. Because of this reason, we have strict procedures in place where payment to a contractor is only made upon progress, which is independently verified by our consultants and our internal team.

HON. DR. M.T. SAMISONI.- You have a policy on that?

MR. R. PRASAD.- We have a process, we have very strict procedures in place.

HON. DR. M.T. SAMISONI.- On that one, the lightings, those are accounted for, going from Nausori to Labasa, and they are all part of the documentation?

MR. V. NAIDU.- Yes, it has all been documented. Previously, we have taken it in our books as inventory and then we have transferred them for the Nausori and Labasa projects. So those have all been accounted.

HON. DR. M.T. SAMISONI.- Thank you.

DEPUTY CHAIRPERSON.- Thank you. I have a few questions of my own. Yes, this was an issue before and I believe this has been resolved but it still raises a few questions.

First of all, what happened to those employees who were involved in this contractual agreement with the contractor? You mentioned that they are no longer employed, what is the reason for non-employment, were they terminated because of that?

MS. S. MISHRA.- Yes. The project manager on this was terminated.

DEPUTY CHAIRPERSON.- So I believe there must have been a collusion in this case between the project manager and the contractor?

MS. S. MISHRA.- Yes, it is difficult to say now. We had a legal officer then, they did their own investigation.

DEPUTY CHAIRPERSON.- What did the legal officer conclude?

MS. S. MISHRA.- Well, it resulted in the termination of this project manager.

DEPUTY CHAIRPERSON.- And what was the reason for the termination?

MS. S. MISHRA.- Well, in fact, the reason was, when other members of the Management went to check the Savusavu Terminal, then they found that the progress was not up to par.

DEPUTY CHAIRPERSON.- So the independent performance audit verification showed that the project manager was not actually carrying out his work of inspection?

MS. S. MISHRA.- Yes.

DEPUTY CHAIRPERSON.- Thank you. Honourable Members any questions?

The other interesting point is on the second submission and that is accounting of assets. I believe there has been a considerable increase in the valuation of the assets, it has almost doubled the value \$242.2 million to \$440.6 million, so why such a huge difference? Is it because of the new upgrade?

MR. V. NAIDU.- Yes. As per the Erasito Beca Consultants, the re-evaluation was done for all the airports' assets and particularly, we had to agree with the Nadi ATMP for the completion. Once that was completed, then we took the valuation, taking into consideration that the last valuation report we had was done in 1992. So that was quite a lapse of that, so it included all the upgrades that were done and with that, it came to a figure that needs to be taken into our books.

DEPUTY CHAIRPERSON.- So it was done way back in 1992, so that explains that.

Sir, I know this is out of your submission but perhaps, you can provide a response later on, if this information is not available with you, this is with regard to the valuation of all the airports as we speak, in particular our main airport. Would you know what the valuation figure was during 1992 and what is the valuation figure now? I mean, you can provide us with that information later on.

MR. R. PRASAD.- We can provide that later on.

HON. DR. M.T. SAMISONI.- That is a good question too.

DEPUTY CHAIRPERSON.- Because most of the revenue is from ...

HON. DR. M.T. SAMISONI.- Yes, the market value of Nadi would also ...

DEPUTY CHAIRPERSON.- Yes. This is very good information but perhaps, we expected individual valuation of individual airports. That would have added more to our understanding of how we can write an independent report because I believe not all airports act as your commercial arm. Some are there for social responsibility only. So in that case, if we can get the value of individual airports that will help us derive at a more independent report.

MR. R. PRASAD.- Honourable Deputy Chairperson, of the 15 airports that we manage, only Nadi makes the profit.

DEPUTY CHAIRPERSON.- Yes, exactly. That is why we are very interested in Nadi International Airport.

MR. R. PRASAD.- Yes, we can provide the details by airport.

DEPUTY CHAIRPERSON.- Thank you. Honourable Members, any more questions.

I believe the responses were very precise, except for the valuation breakdown, and if we can have that.

OAG, just to confirm, we have received this information that the Savusavu Terminal Building has been resolved. But just a confirmation from your good office before we make our report, is everything in order now?

AUDIT REP.- Yes, Honourable Deputy Chairperson, the issue on the Savusavu Terminal Building upgrade as per the current audit that we did, was resolved.

DEPUTY CHAIRPERSON.- Thank you. We asked because it has been an issue from last year, I believe.

Thank you, Sir, and I thank the Team from Fiji Airports for your indulgence. I know the time of submission was not that long and you came all the way from Nadi but nonetheless, this is how the process of the Committee is, we need to individually take submissions from all the entities. It does not matter how or what the number of issues are, this is all part and parcel of the democratic process we follow in Parliamentary Committees. So I thank you for your indulgence and I wish you all the best on your way back.

I believe all of you will be going back to Nadi. Thank you for your time, for your presence and any concluding words before we end the session.

MS. S. MISHRA.- Thank you, Honourable Members of the Committee. Yes, we do appreciate the questions that you sent to us. We are quite transparent and we believe that the audit process that takes place also improves our organisation.

The questions that we receive from the Public Accounts Committee are always taken into consideration and it also ensures that our company keeps on improving where we have lapsed previously. So once again, thank you.

DEPUTY CHAIRPERSON.- Yes, I concur with you. Last year, when the CEO came, he made a very good statement. He said audit is all about improving, it is not about fear. So thank you once again for your presence and we wish you all the best in your trip back to Nadi. Thank you.

The Committee adjourned at 9.54 a.m.