

18th May 2018

The Hon. Ashneel Sudhakar
Chairman
Public Accounts Committee
SUVA

Dear Sir

RE: Clarification of Issues – 2015 Audit Report on State-Owned Entities & Statutory Authorities

We refer to your letter dated 14th May 2018 and provide our response as follows:

a) Long outstanding work in progress items

These related to Savusavu terminal building upgrade and lights for Nausori airport both of which 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 runway lights at Nausori airport 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 runway 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 runway 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.

b) Accounting for assets – Nadi International Airport Modernization Project, Assets with zero written down values, Fixed Assets verification

These 3 issues are interrelated and it was important that the timing of this exercise coincided with completion of the Nadi Airport Terminal Modernisation Project (NATMP).

NATMP involved demotion 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.

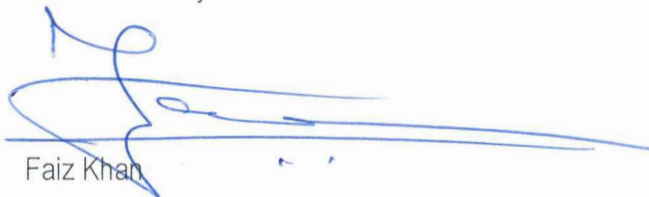
The NATMP reached practical completion on 29 April 2017. After due diligence process, Erasito Beca was engaged in October 2017 to carry out independent valuation exercise of all assets. The valuation report was received in March 2018.

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 Fixed asset Register. 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.

Please note the Erasito Beca report has increased the assets valuation of FA from \$242.2m to \$440.6m after NATMP.

We hope the above response satisfactorily demonstrates the resolution and progress of audit items as per your enquiry. Please advise if it is still necessary to personally attend on the 24th May 2018. If so our Senior Management Accountant, Rohit Prasad and Financial Controller Sanjana Mishra will attend.

Yours Sincerely



Executive Chairman