

VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS COMMITTEE HELD AT THE COMMITTEE ROOM (WEST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON WEDNESDAY, 6TH JUNE, 2018 AT 11.00 A.M.

Interviewee/Submittee: Fiji Roads Authority

In Attendance:

- | | | |
|----------------------------|---|--------------------------------|
| 1) Mr. Robert Sen | - | Chief Financial Officer |
| 2) Ms. Zafiya Shamim | - | Public Relations Officer |
| 3) Ms. Sainiana Rokovucago | - | Stakeholders Relations Officer |
-

DEPUTY CHAIRPERSON.- Honourable Members, representatives from the media, the Parliament Secretariat, the Office of the Auditor-General and in particular the resource personnel from Fiji Roads Authority (FRA), I welcome you all to the meeting of Public Accounts Committee dated 6th June, 2018.

We are here to discuss the 2015 Audit Report of State-Owned Entities and Statutory Authorities. On this particular note, the Committee sent questions that we needed to deliberate on to FRA, in reference to Section 6.4.5 – Discrepancies in Accounting of Fixed Assets.

I welcome you, CFO and your team and without further ado if you can just very briefly introduce your team and straight away take us through your written submission. Thank you.

MR. R. SEN.- Thank you, Honourable Chair. First of all I would like to apologise on behalf of CEO, he could not make it to this meeting as he had to attend to an urgent meeting with the Minister.

(Introduction of FRA team)

In terms of section 6.4.5, we have provided the written response. What really happened is the tender for the ERP system was called on and during the time of evaluation and getting through the process of system, our principal Consultant MWH left without notice. What happened afterwards was that all that MWH was doing was brought in house with FRA. So there was a significant change in the process or the system in how we were doing with the consultant when present and without. Then the Committee decided that the scope that was in the Request for the Tender (RFT) was quite different than the process we were currently doing. If we had to go with the process of scope then there would be a significant change in the scope of work, if we pick up any vendors and that would have cost us a huge sum of money.

That tender was dropped and cancelled and then we needed to do a fresh RFT and scope of work. Then again we had another change in our CEO and the Board decided that in

terms of FRA's organisational change, the structure with the new CEO then will put the re-scope for RFT for the ERP system.

At this stage we are mapping all our processes. We have done a little bit of organisation restructure in FRA in terms of, a lot of things were before monitoring from head office. Now we have got a structure where our General Managers in the divisions, that is, West, North and Central will be more accountable for the processes within their areas. So, we are planning by the third quarter of 2018-2019 financial year, when we would have a better process and mapping and we were able to pick out the best scope then we can put the scope for ERP system and then we will provide the go ahead with the tender.

In the meantime we also liaise with ICT Unit of Fiji in terms of what ERP system are looking at placing tender for any other Government department which is reasonable or quite near so that FRA could piggy back and go with that process with ICT.

DEPUTY CHAIRPERSON.- Thank you, Sir, CFO. This MWH saga, since it appears here as one of the important points that they left without notice, I believe there is a case pending in court. Is that correct, Sir?

MR. R. SEN.- Yes, Honourable Chair.

DEPUTY CHAIRPERSON.- So we will not actually ask about the outcome of the case since the matter is before the courts. Just for the information of the Committee, what sort of contractual arrangements specifically MWH had with FRA? The second question is, why did they leave without notice, given that they were one of your main consultants?

MR. R. SEN.- The MWH has been contracted as the principle consulting for FRA in terms of providing the network and maintaining our network structure in providing the works programme and consulting in the management of the contracts of the or any project. So they provide those consulting work. The reason they left without notice, I have got no idea, Mr. Deputy Chairperson, why they left. They have not given us specific reasons for leaving, I think. But according to the contract agreement which binds MWH and FRA, our legal team has vetted that and the board has decided to get legal remedies from MWH for leaving and not given FRA ample time or actual notice according to the contract.

DEPUTY CHAIRPERSON.- So we believe that the allocation that was given to MWH was quite a considerable amount in terms of the services they will provide in regards to consultancy and all that and with them gone suddenly, they were engaged in the first place because the FRA saw the need to have them as consultants. You had mentioned that after they had left, some important management decisions were made in this case, restructure of the organisation but my question is the specific work that they used to do in terms of consultation, how is FRA now handling that within the organisation since MWH is no longer a contracted consultant for the entity?

MR. R. SEN.- Honourable Deputy Chairman for specific consulting work, expert advice or we had put out a tender to get consultants from the various countries or locally to look after the work and also the management of each of these major projects that was handled by MWH, and is now being handled by FRA staff. So we have engaged a number of key engineers on contract basis which previously was handled by MWH.

DEPUTY CHAIRPERSON.- Honourable Members, do you have any questions?
Honourable Radrodro.

HON. A.M. RADRODRO.- Thank you Deputy Chair. CFO, the auditors have highlighted Property Plant and Assets of about \$8.7 billion. Can you just enlighten the Committee about the various types of assets that are involved in this Report of the Auditor-General?

MR. R. SEN.- The assets of FRA includes the actual construction of the roads, , pavements, footpaths, bus shelters, bridges, jetties and street lights. We also have our own GIS which gives us the work plan that we put out annually like what work has been done, and that is being updated in our GIS so that we can actually at any point in time verify where our assets are located.

HON. A.M. RADRODRO.- ... highlighted roads and all. Have they now been transferred to FRA?

MR. R. SEN.- Honourable Member, I will have to come back to it, I think with some of the roads, the title of that particular road is still under the State, not FRA. Currently we are liaising with the Department of Lands in terms of getting some of these assets under FRA in terms of where our depots are so that we can maintain those and move into that particular area.

HON. A.M. RADRODRO.- Another supplementary question, Mr. Deputy Chairman. This audit report is for 2015, now it is 2018. Why is it taking long to do this process of recording these various assets? When do you intend to complete this exercise?

MR. R. SEN.- Initially when FRA was formed in 2013 from memory and the reports that I have read, we were given the list of assets and length of roads and all those things. Those are currently in our network planning system called Geographic Information System (GIS), so we have captured all our roads and all our assets. According to the audit report on the financial system which is the recording of depreciation and all those things which is not in our system, we can easily use Excel to provide our Fixed Asset Register, what we call in accounting terms.

HON. A.M. RADRODRO.- ...recording of assets also in the Auditor-General's Report to update the revalued amounts, is that also being undertaken?

MR. R. SEN.- (inaudible) ... evaluation has been done but the revalued amount for a specific asset was not allocated to a specific asset because of two reasons. We have asked our valuers to provide that information which we have got and also we would like to see the historical actual cost in order for us to verify or when we do major projects to analyse what was the cost was a few years back, what is the cost, what we are doing differently. We have got the information to add the revaluation value that has is readily available.

DEPUTY CHAIRPERSON.- Office of the Auditor-General, I take note of your comment that states , "Our audit noted that the authority does not carry out reconciliations to reconcile the written down value of donated assets to the amortised value of deferred

income.” What does the office actually mean by that and what are these donated assets that we are talking about?

OAG REP.- Thank you, Deputy Chairman. To make it more clear, the deferred income refers to all those assets which are acquired by the Authority for which they do not incur any cost. These includes the donated assets and also those assets which are funded through Government grant. What has actually happened is that those assets which came in when the Authority was formed in 2012, the Authority has not actually acquired it through their own funds. So in order to record those assets in the books of the Authority, the deferred revenue account was created and in order to record the depleting value of those assets which needs to go through the income statement, the proper recording, proper reconciliation needs to be carried out so that the appropriate value is reduced from the deferred income so that it can go into the income statement. That was not being carried out.

That is why the Office of the Auditor-General was not able to ensure whether the value of these assets were actually adjusted for its revaluation and for disposal on a timely basis. I believe that the authority is still working on it because the issue was also highlighted in the 2016 Report when we did the audit. I think the Authority is working out and are still in the process, if the Authority can confirm that?

DEPUTY CHAIRPERSON.- Mr. Sen, this matter had been identified way back in 2015 and the rectification of this matter has not eventuated till now, so we have 2015, 2016 and 2017 and now we are on 2018, that is almost 4 years. Why has it taken so much time for the Authority?

MR. R. SEN.- Thank you, Mr. Chairman. I think the Office of the Auditor-General would know the issues too. I think in 2012 when we were given these assets, it was not being properly distributed. Some of them were just lumped together by sub-sections or a department and not individual assets. FRA did not have any records of those individual assets so we liaised with the Office of the Auditor-General to verify because initially in 2013 when the accounts was done, it was done in consultation with the Office of the Auditor-General to verify how best we can take into our books, what could be done in the next phase on how we can get the information and properly account for it.

We have been discussing with the Office of the Auditor-General to see how best we can rectify. We had a lengthy discussion in terms of this issue in the 2016 accounts and hopefully we will be able to verify and resolve this issue.

DEPUTY CHAIRPERSON.- Most of these equipment are plants and machineries?

MR. R. SEN.- No, it is physically the roads.

DEPUTY CHAIRPERSON.- So, they have a value to it?

MR. R. SEN.- Yes

DEPUTY CHAIRPERSONN.- So, how do you calculate the value of the roads?

MR. R. SEN.- Mr. Deputy Chairperson, when we do a construction or maintenance of a road, bridge or jetty, we get a cost. When we tender it out we know the actual cost of it and with that the cost of construction then if there is any land to be acquired or consulting services, we add all those costs together to give us the value of that particular project and that becomes the total value and that is then being capitalised in our books.

DEPUTY CHAIRPERSON.- So, with this new road constructions happening is sort of adding to the

MR. R. SEN.- Mr. Deputy Chairperson, from 2013 when FRA came into place, all the construction of the roads and assets has been properly identified. We can actually know the cost of the roads, cost of the bridges, cost of the footpaths, cost of the bus shelter or any component of that particular road in that area that we have currently built out.

DEPUTY CHAIRPERSON.- Suppose a scenario where a piece of road has cost the Authority \$100 million and then they have to inject another \$2 million to re-repair or fill the pot holes and related works. If I am to note down the value of the road in this case which is the asset of your Authority, the value of that will also include additional repairs and maintenance?

MR. R. SEN.- Mr. Deputy Chairperson, the value of the asset would be the actual asset when it was being built but if this \$2 million is the, what we called earlier “repair work” then it is an expenditure to FRA so we record it as an expenditure not as a value in our fixed assets. However, if this \$2 million has been used up to enhance the road to give the useful life for another five years, normally we can say with the bridges or jetties, after four years we do a major rehabilitation of works so that the value of that bridge or jetty is being given another ten years life. Similar with roads, if you do that then it will come as a capital cost, but if it is just a pothole repair, line marking, renewals of those things, then it will be as an expenditure nature.

DEPUTY CHAIRPERSON.- But if you do line marking and make the roads more better than what the initial cost was, does that not revalue your road? I am very sorry I am asking you these questions CFO because these are technical questions and this is just to better understand the process in your organisation works.

MR. R. SEN.- That is great, Deputy Chairperson. I think it is just a regular maintenance of a road. In a simple scenario, when you buy a car, four sets of tyres are new and after few years you have to replace those tyres but the car is yours; similar to the roads. There are certain sections of the road that you have to maintain on a yearly basis like line marking, cleaning of the drains, repairing some damaged footpaths, et cetera. That does not give you the value of your asset to increase the useful life, it is just a regular maintenance of work.

DEPUTY CHAIRPERSON.- Suppose if there is a road that was initially designed to last for five years and in three years the Authority decides that they have to rip off that road because initially the work that was done was not up to par. So, when you replace an existing road which was supposed to last a particular time, it will have a new value or cost that had been incurred in order to do this replacement?

MR. R. SEN.- That is right, Deputy Chairperson. If a particular road really needs to be replaced due to some circumstances whether it has failed or for some other reason, we should be able to pick up the portion or the area of the road that needs to be replaced, what is the cost. The value of the new road that will be put in that place, which will be the cost going into our books.

DEPUTY CHAIRPERSON.- Thank you. So other related utilities, like, for example we see between Nadi Airport and Nadi Town. The roads were made together with very nice footpaths, some new roundabouts plus the inclusion of traffic lights. All those are also counted as the assets of the Authority?

MR. R. SEN.- Yes, all assets are FRA's. We maintain all the traffic lights, street lights, signals at the roundabouts and road markings.

DEPUTY CHAIRPERSON.- Thank you. Honourable Members, any question?

The utilities like power cables and sewer line, even though they are underneath the footpaths, they also belongs to the line Ministry?

MR. R. SEN.- Yes, but we do work very closely with the other utilities in terms of when we do rehabilitation works on any road. We talk to them about the cost. If we do the road and they do not upgrade their services then there will be an additional cost when they want to upgrade, so we are trying to do it at one time. There is a lot of network and consulting happening between other utilities like Energy Fiji Limited, Telecom and Water Authority of Fiji. Definitely FRA normally takes the lead and we give out forecast of the roads that we will maintain or do rehabilitation works in the next 12 months' time or 18 months' time.

DEPUTY CHAIRPERSON.- Sir, perhaps this will be the last question coming from me.

Now, as you have mentioned about the initial implementation of working together to have all these utilities installed by the relevant ministries which are involved. I was travelling along King's Road and that particular area where the Ra Provincial Council is, I noticed that they were laying some power line cables underground. They were sort of using part of the road area. In cases like that, they will have to bear the cost of damage and then repair it themselves: EFL?

MR. R. SEN.- Yes, Deputy Chairperson. There is a process whenever any utilities want to use the corridor of the actual road and sometime there is a road reserve of about 2 meters or 5 meters or even 10 meters. They would require FRA's approval. There is a set procedure within our organisation, there are people or engineers who are actually looking after this corridor access approval and once that is approved the cost for repairing the road is being paid by the other utilities. The final touch up or the repair work will be done by the FRA contractors. At this stage our CEO with other CEOs are implementing so that their work could be happening much more faster, we will put a proposal to get all the work like digging and the final rehabilitation will be done by FRA contractors so that it is cheaper and we know what the standard of work is required. Whereas the other utilities will just go in, either put the

pipes or repair the work and that is basically to see that the work will happen faster at a smaller cost and up to FRA's standard.

HON. A.D. O'CONNOR.- Through you, Deputy Chairperson, CFO, you do not mind be asking, how many contractors does FRA have at this present time?

MR. R. SEN.- Off my head, I cannot tell you the exact number but we have got a quite large number of local and international contractors. I think international, we have got six and majority of them, I think 10 of them are local contractors which are medium to large size and then we have got a lot of medium sized contractors who have a lot of smaller works with us.

HON. A.D. O'CONNOR.- Thank you. The reason I ask is that there has been varying degrees of road servicing by the different contractors. I do a lot of travel around both Viti Levu and Vanua Levu and there are different contractors everywhere. When this people were taken on board by FRA, were their profiles given as to the standard of their laying roads and all that?

MR. R. SEN.- When the contractors are being taken on board or they are awarded a contract, before that when we issue the request for tender, all the standards for that particular road would be checked by our engineers because they go and do the scoping of a particular road, depending on the road type or condition. If these are rural roads depending on the areas and how the surrounding environment is, they will then put the scope of work and the standards and that is what the contractor needs to build. They are monitored by our engineers on the ground and then they will look at the scope and contract and what they are physically putting on the ground.

HON. A.D. O'CONNOR.- The reason I say that is that just most recently, Mead Road was tendered to, whoever the contractor was. Over the last three weeks and within a week of them moving away, it already has got potholes particularly around MH Superfresh and closer to Vunakece Road, which is my concern. I mean for the taxpayer that is a lot of money, they are going to keep revisiting those re-surfacing. .

MR. R. SEN.- Honourable Member, just to add onto that, they have to pay a retention of 5 percent to 10 percent. Any work which is not up to a standard, they go and revisit and do the work which is not a claim or we do not pay them. We call it a design and build phase of the road. The contractors are supposed to give at least seven years of indemnity insurance on the design. So FRA ensures that we carry some sort of, the liability is not always being passed back to the contractors, we have got something on our hand that if something goes wrong that contractors are liable to pay. Even with the current road project, if they do some of the roads, the contractors we call a defect liability period which is one year, so anything that has been incorrect or the road is not up to standard or if something has appeared within one year, they will come back and repair without any cost to FRA.

HON. A.M. RADRODRO.- Deputy Chairperson, another supplementary question in terms of the contracts, just a follow up on the Honourable Assistant Minister's question. You said there are about six or seven contracts, what sort of contract arrangement is done with Higgins and Fulton Hogan? Are they your two main contractors or you have more than two?

MR. R. SEN.- No, they were awarded the two major maintenance contracts for the Western and Central Divisions, At this stage we have tendered out the Western maintenance contracts which came to end and at the end of this year, 31st December, the Central and Northern contracts will come to end. We have already tender it out, it is not closed yet. It all depends on the bidders and the number of contractors who want to bid to this job and we will evaluate them in terms of financially and their capabilities. It will depend on what they bid and the cost of this particular project.

HON. A.M. RADRODRO.- The road upgrade from Nakasi towards Nausori, what is the timeline for that road upgrade?

MR. R. SEN.- We are planning for April next year when it should be completed. That will be similar to the road at Namaka, that is, with footpaths, streetlights and four lanes. With comparison of the Western Division against the Central Division, we get a lot of rain here, so the work sometimes stops and due to vigorous testing of the results, sometimes when our engineers would not allow the contractor to work if they do not meet the specifications or results from testing the strength of the pavement is not up to par.

Due to the rain that delays another few more weeks of works. The work plan that they are currently working on, they should be able to complete it by next year in either April or May, but then that all depends on the weather patterns and other things.

HON. A.M. RADRODRO.- Another question, is the maintenance of the roadsides – clean-up. Who is in charge of the roadside clean-up? I know in the cities and towns it is given to municipalities but what about those outside of cities and towns, especially going into rural areas?

MR. R. SEN.- I think the main arterial roads, FRA is responsible for them. We do vegetation cutting and cleaning and also for the rural roads we do the drainage cleaning. So when there is a routine maintenance work in the rural areas, we do the cleaning of the drains and actually the roads.

HON. A.M. RADRODRO.- Because when I went to the North from Nabouwalu to Dreketi, you cannot even see the posts along the roadside as vegetation has overgrown, which is why I ask What sort of arrangement is made on this?

MR. R. SEN.- It is FRAs responsibility to do the necessary cleaning, they would have somehow programmed it. Normally they do it depending on the weather patterns also and how fast the vegetation has grown. They have programmed every three months to cut the grass, but if the vegetation has overgrown, they will have to do it more regularly. I take your point, I will talk to our GM based in the north to ask on the programme to cut the vegetation on that particular road.

HON. A.M. RADRODRO.- Before with Fiji Roads, they used to engage villagers to maintain the cleaning up of the roadsides, why is FRA not doing that similar exercise?

MS. S. ROKOVUCAGO.- Deputy Chairperson, with regards to vegetation control, we have just started in the Central Division where we are actually giving it to communities and the main issue for us is training, personal protection, the equipment that they use. So we

have just started in Sawani was to actually train the boys on how to put out signage when they are actually carrying out work and success of that, we are actually going to work with other Commissioners in using the community members.

DEPUTY CHAIRPERSON.- The drains which are just near the main roads, the digging of that is the responsibility of FRA?

MR. R. SEN.- Yes.

DEPUTY CHAIRPERSON.- So if a contractor has dug half way and then left, that means they have not completed the work?

MR. R. SEN.- They only get paid for the metres when they clean the drain. Mostly the engineers on that particular road or who are looking after that section, they would have advised the contractor of the portion, or area or the land they are required to clean. There could be various reasons why they do not want to clean the whole section because if they are doing the pavement repair of the other sections, that would be an additional cost to clean the drain and when they do the pavement repair then again they will have to clean the drain. So if there is a work programme for future months, they will only clean the drains for that particular section only.

DEPUTY CHAIRPERSON.- But in this case it seems the work is incomplete because the area I am talking about, I will give you the name later, they have dug half way and the outlet of that is to a nearby river. So just halfway towards the river, the work has stopped. So it has been dug somewhere in the middle and then some portion is left and then somewhere in the middle, so it looks very funny the way the work has been carried out. I do not see any reason why they have not completed the whole work, but perhaps you can look into that.

MR. R. SEN.- Honourable Deputy Chair, if you let me know the area, definitely we can find out.

DEPUTY CHAIRPERSON.- Because the area that I am talking about is a very high risk flooding area and just where the outlet is, the stream, that is where the digging has actually stopped, so perhaps you can look into that.

Honourable Members any more questions? I thank you CFO and your team. There were a lot of supplementary questions and we do thank you for your indulgence.

Road is a very important issue when it comes to the members of the public. They ask us lot of questions and it is good that we had this session whereby we were able to understand the challenges and the scope of work required by the Authority. I know that things do not look as simple as we see, there are lot of processes involved and I thank you for explaining to us more about how the system actually works. We take note of your comments and await for this update, especially in regards to the issue that was raised in the 2015 Audit Report. With those words, I would like to thank you once again and your team, CFO, and should you have any final comments before we conclude the session. Thank you.

MR. R. SEN.- No, Honourable Chair. Thank you very much and I think it is in terms of providing information is one of the things that FRA normally needs to do. I think this is one of the forums that we can talk about what FRA is doing in terms of, like we always look at the safety of our workers and the public whenever any construction of work has to be done by FRA.

The Committee adjourned at 11.39 a.m.