

PUBLIC ACCOUNTS COMMITTEE

[Verbatim Report of Meeting]

HELD IN THE

COMMITTEE ROOM (EAST WING)

ON

WEDNESDAY, 23RD MAY, 2018

VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS HELD AT THE COMMITTEE ROOM (EAST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON WEDNESDAY, 23RD MAY, 2018 AT 9.25A.M.

Submittee/ Interviewee:

Maritime Safety Authority of Fiji (MSAF)

In Attendance:

1. Mr. John Tunidau - Chief Executive Officer (CEO)
2. Mr. Navin Kamlesh - Manager Finance

Office of the Auditor-General

1. Mr. Dineshwar Prasad

DEPUTY CHAIRPERSON.- Honourable Members, members of the media, Parliamentary Staff, Official from Office of the Auditor-General (OAG) and in particular, we have Mr. Tunidau, CEO, Maritime Safety Authority of Fiji (MSAF); together with his Manager Finance, Mr. Navin Kamlesh.

I welcome you gentlemen to the submission of the Public Accounts Committee dated Wednesday, 23rd May, 2018. We are here to discuss the audit issues as per the 2015 Audit Report on State-Owned Entities (SOEs) and Statutory Authorities (SAs). I believe there were three major questions sent out to your entity and that is, submission on the modified Audit opinion, we needed a written response on that; plus emphasis of matter, a response on that as well.

On the Audit Findings in particular, there were two issues highlighted. The first one is Underutilisation of Capital Grants/No Board and the other one is Marine Spill Pollution Advisory Committee not Established. So those are the primary audit issues that we will be looking at.

Without further ado, I would like to give the opportunity to you, CEO. I welcome you back. I know your entity has been doing very well and you have got all your answers and responses here, so if I could give you the opportunity to very briefly enlighten us on what MSAF does and this is for the benefit of our new Honourable Member, Honourable Dr. Mere Samisoni. From there, then you take us through the written submission that you have. Thank you.

MR. J. TUNIDAU.- Thank you, Honourable Deputy Chairperson and Honourable Members of the Public Accounts Committee (PAC). It is a great opportunity for us to be here to answer the questions on the audit queries that had been sent to us last week.

Just briefly on the modified audit opinion as per our submission, we all know that in 2015 MSAF was abiding by the circular issued by the Ministry of Public Enterprises on Cabinet Decision No. 357 of 2012 which stated that all Government Grants received were to be treated as capital contribution.

The OAG did not recognise this treatment of Government Grant as this deviated from the standard accounting practice.

However, the Circular was rescinded in 2016 and all treatment of grants were in accordance to the accounting standards from 1st January, 2016. MSAF does not expect a qualified audit opinion in their 2016 financial statements.

DEPUTY CHAIRPERSON.- Sir, before we move on to supplementary questions as requested earlier, if you could provide us with a brief introduction of your entity for the benefit of the new Honourable Member. Perhaps, you could also mention the difference between other similar entities like Ports Authority and Fiji Shipping Industries; what are the difference in terms of roles and responsibilities of this major

MR. J. TUNIDAU.- Thank you, I apologise for that Deputy Chairperson and Honourable Members.

Yes, MSAF is the regulator for maritime safety activities in Fiji waters which includes:

- Regulating the shipping industry in terms of shipping activities, in particular when we survey or register ships to the Government of Fiji.
- We also deal with manning of ships and that means registration of our seafarers who serve on our domestic ships and also on international ships that are registered in foreign countries.
- Also, we deal with marine protection and environment requirements and when I say we deal with marine and environment protection requirements, this is only in particular to ships' discharges or pollution from ships, let me just rephrase that.

There are six major pollution-type that can be discharged from ships:

1. Waste oil;
2. Noxious liquid substance;
3. Sewage;
4. Garbage; and
5. Air pollution.

We deal with those things and we also deal with floating devices.

In Fiji, however, we do not have in particular floating platforms, like oil rigs, et cetera. However, we are working towards that but we already have laws that cover this operation if it comes in future.

Our jurisdiction only complies with those certain elements. We do not actually deal with land pollution. There is a clear demarcation between land pollution which is dealt by the Ministry of Environment. But within our laws also, I think I would like to make it clear here that our jurisdiction is within the:

- Sea Port Management Act 2005;
- Sea Port Management Regulation 2008 in comparison to the Maritime legislation that we actually administer;
- Maritime Transport Act 2013 as amended;
- the Maritime Regulations (30 of them); and
- Marine Environment Protection Regulation (4 of them).

We have a clear demarcation between those two laws and that jurisdiction of derelict or wrecked ships within port boundaries that have been declared. That is managed by the port

management companies, such as the Fiji Ports Corporation Limited (FPCL) and is dealt within the Sea Port Management Act.

Also pollution within port boundaries is clearly demarcated between the two laws that is dealt with by the appropriate or relevant agency, and within the port boundary that is FPCL. MSAF deals with all pollution and wrecks that are outside of port boundaries because you had asked that Deputy Chairperson, on the clear demarcation and I have made that clear to the media. Also, there are clear demarcations between the two laws.

DEPUTY CHAIRPERSON.- So that means within the port boundaries, it is the responsibility of FPCL. I guess, as explained last year, MSAF basically looks looks after outside the port boundary sea areas within our Exclusive Economic Zone (EEZ).

MR. J. TUNIDAU.- Within our Fiji waters which includes our internal waters, our sheltered waters which means waters within the fringing reef. Archipelagic waters include all these because our archipelagic status includes all these. Then the territorial waters, that starts from the outer boundaries of all islands of Fiji going 15 nautical miles.

DEPUTY CHAIRPERSON.- Sir, how about major rivers and streams?

MR. J. TUNIDAU.- Major rivers and streams, anything to do with shipping we still deal with it.

DEPUTY CHAIRPERSON.- Shipping?

MR. J. TUNIDAU.- Yes, anything to do with shipping.

DEPUTY CHAIRPERSON.- So, there is a big ship at the Rewa River doing dredging, if anything happens, MSAF will kick in and....

MR. J. TUNIDAU.- Sure, yes.

DEPUTY CHAIRPERSON.- Thank you. Yes, Honourable Aseri Radrodro.

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

MR. J. TUNIDAU.- Yes. The EEZ, you need to know the certain requirements. Not all requirements are applicable to our EEZ. Our fisheries requirement actually is applicable there, our marine resources.

HON. DR. M.T. SAMISONI.- Fisheries?

MR. J. TUNIDAU.- Yes, our fisheries requirement and that is where the Ministry of Fisheries comes in, Honourable Dr. Mere Samisoni. There is clear demarcation also, but if pollution happens within that, we should cover it also and we have got the pollution equipment to cover Tier 1 and Tier 2, which has been fully funded by the government of New Zealand.

We have it in four locations - Suva, Lautoka, Labasa and also in Levuka, so we are ready to respond. Again, I come back to our responsibility and again, thank you for those questions.

We also are responsible to actually respond to any marine spill or incident or accident within our waters.

DEPUTY CHAIRPERSON.- Thank you. How about in scenarios, like fishermen using dynamite whilst they do deep sea fishing, et cetera, those types of safety issues are dealt by MSAF or....

MR. J. TUNIDAU.- Thank you, Deputy Chairperson. Not in particular because when we deal with ships, we only deal with survey, registration, manning, et cetera. Our law does not cover that, to deal with ships' documentations and sea worthiness of a ship. So, we satisfy the ship once the ship is initially surveyed and then it can be registered because now, it then becomes seaworthy, it can sail. Apart from that, other activities like fishing which comes in dynamite, we do not cover that.

DEPUTY CHAIRPERSON.- It might come under the Ministry of Fisheries?

MR. J. TUNIDAU.- It might, but I cannot confirm this.

DEPUTY CHAIRPERSON.- Yes, thank you.

HON. A.M. RADRODRO.- CEO, thank you for the explanation. You mentioned about shipping safety. What about the seafarers, the people who work in the ship, who looks after their safety?

MR. J. TUNIDAU.- That is a very good question. Thank you, Honourable Aseri Radrodoro.

In certain aspects, the Maritime Law covers all that, like the Seafarers Employment Agreement, also the Articles of Agreement that comes to us but the main Convention covers what we call the Fourth Pillars of the Maritime Convention.

The main pillars of Maritime Convention are:

1. International Convention on Safety of Life at Sea as amended, this is mostly amended everytime.
2. International Convention on Protection of Ship Based Maritime Pollution.
3. Standards of Training, Certification and Watchkeeping for Seafarers.
4. Maritime Labour Convention that deals with ILO. We refer to that Instrument as the Bill of Rights for Seafarers because now it protects the rights of seafarers.

For your information we are already working very closely with the Ministry of Employment. We have a draft Regulation and we are nearly completing that. We are conducting consultations on that but that Regulation will be particularly looking into the conditions and rights of seafarers, to cover them during their employment on ships.

HON. A.M. RADRODRO.- Is Fiji a signatory to all of those four Pillars?

MR. J. TUNIDAU.- Fiji is a signatory to the main four Pillars of the Maritime Conventions because again, the MLC comes under the ILO so I cannot say now IMO Conventions, Maritime Instruments....

HON. A.M. RADRODRO.- So, what Instrument is now taking care or looking after the safety of the seafarers whilst in the process of finalising the Treaty that you have, what Instrument does the MSAF have to ensure that all the seafarers in the local shipping industry are not being thoroughly exploited?

MR. J. TUNIDAU.- The onus, as I said explicitly, in our existing Maritime legislation deals with the safe employment agreement or article of agreement referring to the Maritime Transport Act, which covers conditions of work on board, repatriation, if it is required and certain aspects - food and hygiene, but it does not fully cover what is required for seafarers. I am not really sure, I cannot answer this question as it needs to be posed to the Ministry of Employment, whether we are party to the Seafarers Employment Instrument with ILO.

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

MR. J. TUNIDAU.- They also have their function but it is mostly to do mainly at the moment with all Occupational Health and Safety (OHS) on board ships and I do not want to answer that. It should be answered by the relevant...

HON. A.M. RADRODRO.- MSAF SDCW SOLAS and the other one.

MR. J. TUNIDAU.- Yes, but for the MLC when it comes through, we are already negotiating which area should lie with the Ministry of Employment because they already have expertise and mechanism set up. We do not want to reinvent mechanisms, it is a waste of resources, waste of time and funds. So we have been having cell meetings from last year and this year, and we have been consulting also with ship owners because the three entities need to be consulted - the Government, ship owners who will be affected and also the seafarers, as you said these are Bill of Rights.

We are already working closely with the Ministry of Employment to see which areas should lie within their current Employment Relations Promulgation and what should lie with the thing and that should be reflected in the regulations that will come out that will cover the Maritime Labour Convention.

HON. A.M. RADRODRO.- The question regarding safety, there was some boost to the fuel and oil that used to be transferred to the maritime islands. What is the MSAF's stand in terms of the safety, do they still allow that with passengers on board?

MR. J. TUNIDAU.- Thank you very much for that, Honourable Aseri Radrodoro, a very good question, and for me that is a good question to know. At that moment, we have strict requirements for cartage of dangerous goods such as fuel. So we are allowing it only because on passenger vessels, there is certain limit and this limit is actually endorsed on the Survey Certificate. They can take only a certain limit and certain requirement like all the firefighting and ventilation requirements, all those signs, et cetera.

They must adhere to this before we endorse on the Survey Certificate that this can be carried on board and it should be away from the ignition source and all those things. Otherwise, at the end of the day we will be stopping the economy. We cannot stop the economy. Until we get proper ships that can carry these dangerous goods, we have to do with what we have and with the strict requirements we have, we have to apply.

HON. DR. M.T. SAMISONI.- Last question.

DEPUTY CHAIRPERSON.- Yes.

HON. DR. M.T. SAMISONI.- Today, they talk about the new economy, Human Resource development and then innovation, finding new ways to deal with our problems and while you were talking about requirements in ships because we used to have a Hot Bread Kitchen in Lomaloma and one of the biggest problem is transporting fuel over and stealing of fuel drums, et cetera.

We were thinking about then to have just a boat that we could have enough fuel to bring to the island and then just have a depot there and then just looking at that. But today it is all about innovation and how we can reduce the human resource accidents, et cetera. It is a new way of trying to solve our problems, it is innovation.

I just want to mention that because we really need to be looking at human resource development and how we can move into that area, from the old economy where there is so much bureaucracy that it is, sort of, really killing us, and we should be looking at new ways of doing things. I am just mentioning that because you talked about the Ministry of Employment and Productivity. That is good. I am glad that you are working closely with them because we need to be moving into the new framework.

MR. J. TUNIDAU.- Thank you.

DEPUTY CHAIRPERSON.- I think we have had quite a lot of discussions on the introduction. I thank you, CEO, for your indulgence on that.

OAG, if you could explain this scenario, this modified or audit opinion and what actually happened? We have the responses but it says that the OAG did not recognise the restrictions of Government grant as this deviated from the standard accounting practice. So, if we can have some explanation on that.

AUDIT REP.- Thank you, Deputy Chairperson. The issue again is in relation to the Circular that was issued by the Ministry of Public Enterprises in 2012 and then subsequently in 2016 in regards to the treatment of grant.

HON. A.M. RADRODRO.- Can I just intervene; can we have a copy of that Circular?

AUDIT REP.- Yes, sure.

What actually happened was that any grant that was received by Government in accordance with the accounting standards should be disclosed either as revenue or deferred grant, looking at the nature and purpose of the grant.

DEPUTY CHAIRPERSON.- I am sorry you are saying revenue and....

AUDIT REP.- Revenue or deferred grant, which is a liability account. That depends on the purpose and the intention of the grant that was given to the entity.

In 2012, the Ministry of Public Enterprises issued a circular that required those entities who are receiving Government grant and Government assistance, for the grant to be recorded as capital contribution. What happened was that, there was conflict between the Government directive and the International Accounting Standards (IAS). So while the audit report is based on the IAS, the treatment

deviated from such Standards. Eventually the Auditor-General has to qualify the financial statements which is the departure from the accounting standards.

Then coming back in 2016, the Ministry of Public Enterprises issued another circular and that circular then required any recent grant to be treated in accordance with the accounting standards. So after 2016, the entities then started to record it in accordance with the Standards.

Some of the entities have adopted the Government directive and recorded it as capital contribution and that was not in line with the applicable accounting standards and that was why the audit opinion of the Auditor-General was modified.

DEPUTY CHAIRPERSON.- It is a very interesting point to note.

You have mentioned that the Government directive was, sort of, not in par with the IAS. In cases like this, OAG will still maintain its stance, that it will go for the accounting standard and not what the policy the Government has implemented.

AUDIT REP.- The preparation of the financial statements is based on the accounting standards which sets out the rules or recognition of how the transactions have to be treated. So, based on that, the Auditor-General gives his opinion.

DEPUTY CHAIRPERSON.- In that particular directive, I wish we had the Circular.

AUDIT REP.- We will submit copies of the Circular, Deputy Chairperson.

DEPUTY CHAIRPERSON.- I mean now, so that we have a read and ask more questions on that because this is not what we would call the fault of the entity. This is probably the policy changes that came in between because of this particular circular. So, would it be right for me to assume that sometimes Government circulars can also dispute with the IAS?

AUDIT REP.- Deputy Chairperson, I would not like to comment on that since it was a policy decision by the Government.

DEPUTY CHAIRPERSON.- Exactly.

AUDIT REP.- But the only thing that I can comment on is that the Circular was not in line with the Standards, so it was conflicting with Accounting Standards. So the Auditor-General has to give its opinion based on the Accounting Standards.

DEPUTY CHAIRPERSON.- So Auditor-General will always give his opinion on the Accounting Standards. They will not bend rules and regulations because of a policy that came in place?

AUDIT REP.- Yes.

DEPUTY CHAIRPERSON.- So if it is conflicting, the best way to ratify that is for the Government to relook at that policy?

AUDIT REP.- I think that was done and in 2016, then the Ministry of Public Enterprises issued another circular which advised entities to record or treat the grant in line with the Accounting Standards.

DEPUTY CHAIRPERSON.- Honourable Radrodro. I will give you this opportunity, just one more question because I am following on to the sequence of my question. So that is why you have commented, CEO, that MSAF does not expect a qualified audit opinion because there has been changes to that circular now?

MR. J. TUNIDAU.- Yes, Honourable Deputy Chairperson.

DEPUTY CHAIRPERSON.- So it is very important to note because of the policy, it is not actually the fault of the line Ministry.

HON. A.M. RADRODRO.- What the Auditor-General is lacking to highlight here is the history of the treatment of grant by entity. First of all, the treatment of grant as equity was based on the Fiji Accounting Standards that had existed previously.

In an earlier session interview of the Committee, the Fiji Accounting Standards has been removed and replaced with IFRS. There are a lot of concerns raised here because first of all, Government grants have previously as always been reflective of Government's contribution towards an entity. Therefore, calculations of the return on investment, et cetera, is expected from an entity based on the equity contribution of Government.

In this particular case when it is treated as a revenue, first of all, it is a big sum of money. For MSAF, what is the amount involved in this particular entity, the grant that was given to MSAF, which you are now saying to be treated as revenue? Of course, it will boost the operations of ...

MR. N. KAMLESH.- Are we talking about that year or from the time it was...

HON. A.M. RADRODRO.- No, for this particular year.

MR. N. KAMLESH.- That was \$5.2 million.

HON. A.M. RADRODRO.- \$5.2 million operational grant?

MR. N. KAMLESH.- Both, capital and operating...

HON. A.M. RADRODRO.- How much was capital and how much was operating?

MR. N. KAMLESH.- \$2 million was capital and \$3.2 million was operating.

HON. A.M. RADRODRO.- This differences in classifications of grant should also be reflected in the way the accounting is presented because capital grant is not used for operational purpose, it is used for capital purposes but the way this IFRS requirement is, the operational grant and capital grant are treated as a revenue for the entity. That, in itself, a lot is inconsistent with the purpose that the fund was given out.

DEPUTY CHAIRPERSON.- I think we have heard something similar with FBC yesterday and it took us a lot of time to actually grasp and understand how grants were given because they had their own reasons and understanding as to what the grant was allocated for and the actual audit issue that was raised.

AUDIT REP.- Thank you, Honourable Member. I just want to make a clarification here.

I think the contribution from the Government can be recorded as capital contribution but there needs to be a scenario for that. For example, the grant that is given to the entities for operational purposes and for capital construction or capital purchases, that needs to be recorded in line with the International Accounting Standards 20 which states that it should either be recorded as a revenue or a deferred revenue. But if a grant is given to any entity without any condition, then that can be treated as capital contribution. For example, if the Government gives money to an entity and does not put a condition that it should be used for that specific purpose, or it should not be used to purchase that capital, that can be treated as capital contribution, because it is given by the Government, probably as a shareholder to the entity.

HON. A.M. RADRODRO.- Deputy Chairperson, that is exactly what we are saying here. The statement here is not really reflective of what you are just saying. You are just saying that all the Government grants should be treated as revenue as per your statement here, because IFRS requires that all Government grants be treated as revenue. It does not specify whether it is capital grant or operational grant.

DEPUTY CHAIRPERSON.- But I think another circular changed that?

MR. D. PRASAD.- No, just another clarification on that, Deputy Chairperson. A grant will need to meet the definition first, because a capital contribution will be a capital contribution, it will not be a grant. And if a grant is given, then a grant is either your personal grant or a capital grant, but if a capital contribution is given then it will be a Government assistance, so that will be recorded as capital contribution, but if the word 'grant' is there, it means there is a need to be conditions attached.

If the Government is giving, for example, \$10 million to an entity and has certain conditions attached to it, then it becomes a grant under the International Accounting Standards 20. So it either needs to be recorded as a revenue or a deferred grant, but if the Government is giving an assistance to an entity where there is no conditions attached, it does not specify that this money needs to be used for this purpose or that purpose, that will be treated as capital contribution because the Government as a shareholder is giving that fund to the entity as a contribution. So there is some sort of confusion between the standards and how...

HON. A.M. RADRODRO.- That is exactly my point, Deputy Chairperson. First of all, Government would not give any money just like that, they will give money for specific purposes. Therefore, the recommendation that has been shown here, sort of, deflects the contribution of Government to an entity in a particular year. If, for example, MSAF is being relying on Government grant and the condition is for operational purposes and capital grant, therefore, it should be reflected likewise, you do not need to show it as a revenue because once you show it as a revenue or deferred revenue, you are eliminating the amount of contribution of Government to an entity because everything is taken up as a profit and loss item.

AUDIT REP.- On that issue, Honourable Member, when a grant is given, if it is used to purchase the assets that are recorded as deferred revenue because it cannot be recorded as revenue outright, and if it is for operational purposes, then it is recorded as revenue because it needs to match with the expenditures that will be incurred by the entity. So a grant consists of, for example, if a \$10 million is given, from that \$10 million, \$5 million can be for operational and \$5 million can be for capital construction. So that \$5 million that is for capital construction should be recorded as deferred revenue, \$5 million for operational purposes will be recorded as revenue, so the Standards also make the distinction.

DEPUTY CHAIRPERSON.- Thank you, we will move on to the next issue.

HON. DR. M.T. SAMISONI.- Can I add something on that please, for us in the private sector this is why we have a budget and whether that is very clear, and if it is not clear we come back to the Board, which then clarifies every step. I just wanted to say that, that has to be a clarified at every step.

DEPUTY CHAIRPERSON.- Thank you. We will move on to the next one, emphasis of matter.

HON. A.M. RADRODRO.- One last question to OAG on the treatment of Government grants. The recommendation that you are putting through, how would Government determine its contribution when it picks up, for example, its financial statements three years from now, financial contributions in terms of grants?

AUDIT REP.- Honourable Member, if a capital contribution is going to be recorded...

HON. A.M. RADRODRO.- No, I am talking about grants, whether it is capital or operational, how will Government, in three years from now if it wants to determine how much it has contributed over the years, like it has been done prior to the new release whereby everything is recorded as equity so it is very easy for them to know how much cash contribution has been given up to that point in time? In this particular instance, going forward three years now.

AUDIT REP.- I believe that would be the responsibility of the entities to keep a record of how much grant they have received and how much have they utilised, but if they record that as an equity, then there will be no items in the revenue. The revenue would be nil, so there would be nothing left to offset against the expenditures and it will not show the true affairs of the entity.

For example, if the Government is giving a \$1 million grant to an entity and records it as an equity and that is the only funds that the entity receives, that means if they record it as equity, there will be nothing under revenue, which means the expenses will not be matched with the revenue so it violates the matching principles as well of the entity. But it becomes the responsibility of the entities to record how much grants they have received over the years from the Government.

(Inaudible)

DEPUTY CHAIRPERSON.- Yes, it can be.

AUDIT REP.- Yes, initially when it was recorded as capital contribution, you would see that there were deficits in some of the entities and with the change in the Standards now. But there were entities who were recording it in accordance with the accounting standards so they did not follow the Government directive. They were recording it as in accordance with the accounting standards, so that was all right. But some entities were not and some entities were even confused because if they put everything as capital contribution, then they have nothing in the revenue to show so they see it appropriate that they record it as revenue and not as capital contribution.

That is why there was a lot of confusion. The Ministry of Public Enterprises then gave another circular in 2016 to reverse that earlier circular, but I will be happy to communicate this with the Committee on the complexities of that Standards and the treatment.

DEPUTY CHAIRPERSON.- With due respect to our submitters, I believe they have been sitting and just hearing so I will give the opportunity to you, CEO, to take us through. Thank you.

MR. J. TUNIDAU.- Thank you, Deputy Chairperson and Honourable Members.

The second point is tax exemption status. We had a meeting with FRCS on 1st May this year at MSAF Office in relation to the above and it was resolved. In that meeting, it was agreed to forward a Cabinet Paper to request for amendments to Section 55 of the MSAF Act 2009. That was then supposed to be decreed.

In relation to tax exemptions, our exemptions from taxes and duties, this shall exempt MSAF from payment of income tax for a longer period of time. Initially, it is only three years within the MSAF Act 2009. MSAF has not been generating profit for the years. This is due to the nature of service it provides to its stakeholders.

I would like to elaborate a little bit on the nature of service. Probably, it is not clear to the Committee but when I say nature of service, they are State obligatory services. That is not allowed within the Convention that you have to pay for that. For example, all our investigations are State obligatory services, so all our investigators when they go out to do marine investigation on incidents, accidents and mishaps, the cost of logistics and all those are not allowed within the Convention to be paid for as a commercial service.

There are other non-commercial services that we also provide like marine clearance, et cetera, so that is the nature of service that we have to put up at MSAF.

Furthermore, low fees and charges are key factors in low profit and no profit at all, but I would like to probably highlight to this Committee that in 2015, our profit was around \$600,000 to \$800,000 but just this current year, we have gone up to \$1.9 million. So MSAF has been working hard to get the revenue, to get the fees because with the amendment of the Regulation, we had a new fees that had been introduced, that were services that we were doing, that was not paid for in the past, such as the auditing that we were doing for the Fiji Maritime Academy when we approved them as a maritime training institution. We were doing all the work but there was no fees actually covered in the old Regulation so these fees has helped the Authority in gaining more revenue.

But in accordance with tax exemption, we have discussed this with the CEO of FRCS on the way forward for that.

HON. A.M. RADRODRO.- CEO, in terms of the nature of service, I think I have brought this up earlier on regarding the infrastructure availability for staff at MSAF. The recent beaching of *Altruism*, we saw that your staff was incapacitated and they were relying on the boat. Is there any plans to equip the staff with boats to respond to emergencies independently rather than relying on other agencies that respond to disasters like that?

MR. J. TUNIDAU.- Thank you, Honourable Member, for that good question. Again, I would like to state that within the legislation we are only confined to our services; search and rescue is not really covered in the Maritime Transport Act. It will be covered by the Search and Rescue Act that will come into force when it is passed by Parliament and the Search and Rescue Manual that has been formulated by the Ministry of Defence.

However, the search and rescue function has always been carried out by the Fiji Navy because they already have the resources for such. And within the territorial waters, the archipelagic waters of Fiji, it is the responsibility of the Police Force. They already have 18 vessels that they can respond to such incidents, if it is required. That is why I was responding to the parliamentary question that rather than duplicate resources, we have the idea before in our first strategic plan to probably have our presence in the water.

But again to look at our legislation, the scope of work that we can do, we are limited to, as I had said, search and rescue services does not really fall under the Maritime Transport Act, so we are limited to that.

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

MR. J. TUNIDAU.- No, as I said, the maritime service has been from the past been carried out by the Fiji Navy because they have got Fiji Naval ships to respond to this or the Police Force because they also have got the boats. But in the maritime legislation, and let me be clear, Honourable Member, it only states that I can give directions in accordance with the Search and Rescue Manual developed by the Ministry of Defence. I can give direction to an owner to assist in an incident, accident or mishap, and that is all. If they do not comply, then there are penalty provisions for that.

(Inaudible)

MR. J. TUNIDAU.- Yes, I mean, when in authority the CEO can give directions, please help, because they know the ship is there. The obligation under the International Convention for the Safety of Life at Sea (SOLAS) in Chapter 5 covers search and rescue in particular, and there is also a search and rescue convention that Fiji has not ratified. Again, we have to go back to that through our obligations.

Within the Chapter 5 of SOLAS and under our local legislation which has domesticated that under the Maritime Transport Act, the Chief Executive can give direction and it is an obligation also for shipowners out there when the ship is near the incident to assist. So that is how it works, they have to assist and also there is penalty provisions for that, if they do not.

In certain cases, like the *Altruism*, we were already in contact with the owner. Once it came to us, we contacted the Navy and Police, 'Be ready to respond.' We contacted them on what is happening and they said, 'John, we are diverting our ships there right now, be ready!'

The only thing that was happening was the test for their small ships. That, we got from the owner of one of the resorts in the islands and even one from the owner itself, to help in the transfer from the big ship to that ship.

It was very timely, taking into account, and I was trying to tell the media, 'You have to understand the circumstances, the environment there.' It was a rough weather and for transporting, you have to do it in a safe manner and it will take time to transfer from the distress vessel to the vessel that is assisting. It took them from 4.00 p.m. to 6.00 p.m. for the transfer, and they were offloaded in Natovi (I think) at around 9.00 p.m. We are, kind of, lucky in Fiji that we have not had a major accident or mishap.

HON. DR. M.T. SAMISONI.- ...(Inaudible)...I mean, safety is very important for human beings. Do you have any data where bureaucracy has not, without responding to the issue of safety from your point of view? I am just asking in terms of research where we are very interested in data today, do you know any cases where there has been death because of slow bureaucracy response.

MR. J. TUNIDAU.- Honourable Member, not really but the search and rescue data is always with the Fiji Navy. They have a Search and Rescue Centre already established so probably, they have the data.

HON. DR. M.T. SAMISONI.- Do you feel that if something is wrong, you would act?

MR. J. TUNIDAU.- Of course, we will have to know which ship is around there that we have to act, but I have always tell the people, what is the most important thing to do? When you see it, you report at the same time, not after 48 hours. How can the Authority respond?

Even if there is a pollution, we knew about that only from *Facebook*, no one reported it to us, even though it was in the port boundary under FPCL. If they report it to us, we will just go back to FPCL and say, 'Please, do something about this.' But, in fact, when I followed up with FPCL, they said, 'John, it was reported to us, we apologise, and we will forward you the report.'

Anyway, because we need to be again the relevant agency, certain rules within that legislation that they have to adhere to, and again, I come back to that which is a good idea, Honourable Member. Even I would like to have the presence of MSAF in the water, if we can but again, for search and rescue terms we have resources that are already out there. Again, duplicating resources and funding, et cetera, we have to be mindful of.

HON. DR. M.T. SAMISONI.- Because the issue today is leadership also?

MR. J. TUNIDAU.- Yes.

HON. DR. M.T. SAMISONI.- Not just a legislation?

MR. J. TUNIDAU.- Sure, Honourable Member, very important.

DEPUTY CHAIRPERSON.- Thank you. We will move on to the last submission.

MR. J. TUNIDAU.- Probably, there was another minor question on Ships System Database Software; the issue of software has been resolved by the software developer. However, the delay, to be honest, is from MSAF's side, to populate the data to enable the required feature to work properly because when we had the data originally in our Excel, it was a different data in the new Maritime Safety Database System (MSD). It feels different so the developer could not transport these 2000 data because they had different fields.

Now, what our officers did was, they have create an excel data on the same fields and they have been transporting them. If you can see from the 2000 we have, 125 have already been transported and they are working overtime to try to complete the data transfer.

DEPUTY CHAIRPERSON.- We will move on to the last point.

MR. J. TUNIDAU.- On the underutilisation of capital grants, this was mainly due to the absence of the Board but I would like to state here that when the former PS came into this position, he actually assisted MSAF because we lifted this up and in our Finance policy, the CEO can only sign off on \$50,000 and less, which is my limitation. So most of these capital projects are above that.

In fact, the former PS actually assisted in this and he approved most of the capital projects and for the information of Honourable Members, because of this we had completed most of the capital projects - the Labasa Office is now completed and the Nabouwalu Office from 2015, the Taveuni Office was already opened, Savusavu Office has started, the Suva upper lead and Suva lower lead and Momi lead for lighthouses have been completed, Totoya and Vatoa is nearly completed and two cardinal buoys for Suva Harbour. Those are just some of the projects that were pending that we have completed because that facilitative process. However, the whole issues have been resolved because we have a Board in place now.

DEPUTY CHAIRPERSON.- How many people are in the Board?

MR. J. TUNIDAU.- There are five, in fact, Honourable Deputy Chairperson.

DEPUTY CHAIRPERSON.- Who is the Chairman?

MR. J. TUNIDAU.- It is actually our Permanent Secretary, Mr. David Kolitagane.

DEPUTY CHAIRPERSON.- Honourable Members, any questions?

HON. DR. M.T. SAMISONI.- I am interested in the composition of Boards. What is their background?

MR. J. TUNIDAU.- They have a very diverse background. That is a very good question and I think the Board is well formed. Their financial background; they have got a shipowner from the industry, who brings in the experience from the industry, they have also got a person with legal background from the Solicitor-General's Office and public relations or communications. So it is very well structured and covers most of the areas that is required....

HON. DR. M.T. SAMISONI.- From human resources, not yet done.

MR. J. TUNIDAU.- I do not know about that. Thank you, Honourable Member.

HON. A.M. RADRODRO.- A supplementary question; just a clarification on this Audit Report, the environmental levy \$4 million that has been collected so far and the pollution levy, is that the same levy?

The Marine Spill Pollution Advisory Committee was supposed to determine a pollution but you are collecting a different levy on top, an environmental levy?

MR. J. TUNIDAU.- That environmental levy was supposed to be pollution levy. It is no longer environment levy under the whole legislation, that was supposed to be a pollution levy. It is the same levy, Honourable Member, and that amount is from 2015 that we are talking about.

HON. A.M. RADRODRO.- The investing of \$4 million in term deposit, why is it that MSAF is investing this as term deposit, is it not supposed to be utilised on some specific reasons for the collection of this levy?

MR. N. KAMLESH.- What really happened was, we had surplus funds, the pollution levy but we have set aside a million dollars in operating account in case of emergency or when disaster happens. This approval was given by the Board to actually invest because it was sitting in operating account not generating any income because the interest rate was good actually, so that was why we invested with the Board's approval.

But the condition with the Bank was, when there is a requirement, we have to split or break that down and there will be no penalty charged on that investment. That was a set aside, sort of, investment to meet the Board's approval.

HON. A.M. RADRODRO.- Sir, in cases spills?

MR. J. TUNIDAU.- Yes, thank you Honourable Member for that question. Again, this is a very good question because we are limited to what our legislation says. Under section 2(1), it is clearly specified there that it is only for pollution response. So pollution response by MSAF, pollution equipment procurement, et cetera, are covered in there but it needs to be for pollution response in Fiji waters under section 2(1).

HON. A.M. RADRODRO.- That is from the lower water level to...

MR. J. TUNIDAU.- Yes, any pollution response and there are three tiers - Tier 1, Tier 2 and Tier 3. Tier 3 is where the national response cannot really handle the whole situation so we can ask assistance from our international partners. Tier 2 is national response, where we have all equipment ready, then we can respond to that. The Tiers depend on the amount of oil and the type of oil that actually spilt.

HON. A.M. RADRODRO.- What happened to the pollution at Suva Port that was highlighted, did you utilise some funds in there?

MR. J. TUNIDAU.- As I said, it is only for pollution response. If that incident had been reported to us, again, I told the media that when there is a spill, it depends on the type of oil because different types of oil have different effects on the environment.

For example, diesel oil. Within one day, diesel oil dissipates. Heavy hydraulic oil have more impact on the environment and depending on the spill, the equipment also that we have can respond to that. If it is a small spill, then it is no use to use the equipment because they are big equipment - oil boomers, et cetera. And then the area where there is spilt is a very restricted area.

We can also use spill dispersant to dissipate that and then it actually takes away the effects on the environment, so it depends on that.

Again, as I had stated before, it depends also on the report coming to MSAF. One good example I would like to make very clear to this Committee is that of the *Southern Phoenix*, Deputy Chairperson. Half an hour when it was happening on the wharf, it was reported to us. 'There is a problem here', the port operator reported to me. I ran over to the Pollution Officer and we actually deployed within that hour.

Then the location of the oil spill response equipment, it was good that we have located it in the Kings Wharf, so we had to transport it from there. It is a big equipment. They have to use their lift and everything to transport it there to the Princess Wharf this side, have the equipment there and we have to look at the safety aspect of it because we started deployment from 3.00 a.m. in the morning and 7.00 a.m.

We boomed the ship and because of that, no spillage came out. If we had not done that and were a little bit late, heavy oil that was on that ship would have badly affected the environment. It is

very hard to take it away. It could have happened but because of the timeliness of the report, we had to respond timely. It is always important.

That is the awareness we are trying to get out to the media, stakeholders and everyone, even the general public. When something happens, please report it so that we can determine. We need to come into the site, assess the site, the type of oil, et cetera, and then say, 'Alright, do this.'

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

MR. J. TUNIDAU.- Yes, it is still there, there is no more oil that has been taken. Any oil that was coming out or whatever is left over, we have removed ashore through our skimmers. We called that skimmers or the hydraulic pumps.

HON. A.M. RADRODRO.- How are you charging the shipowners on the use of those boomers?

MR. J. TUNIDAU.- Not really because the shipowners are also paying for the pollution levy so the procurement of this, if this is damaged, it can be charged to the owner but because he is paying for the pollution levy, also MSAF can use the pollution fund to procure the replacement of this equipment and those booms are gone, it is too long in the water.

DEPUTY CHAIRPERSON.- Honourable Members, any more questions?

HON. A.M. RADRODRO.- The vessel, *Sinuwasa*, in front of Levuka Hotel or somewhere around there, it is also a fuel free ship that was grounded there?

MR. J. TUNIDAU.- In fact, just with the ship itself, the engines and everything because we have told the owners to remove the fuel, but it is in a safe position. It is embedded in solid hard rock, so it is fuel free but the engines are there. They have to cut it up and do whatever they need to do with the ship.

HON. A.M. RADRODRO.- Just like the *MV Southern Phoenix*, it also happened outside of areas like that. We will have to take the boom there, if they reported on time.

MR. J. TUNIDAU.- We have the boom equipment. As I had said there are four locations, one in Levuka, already there, ready to be deployed. Let me just go back.

Indeed, MSAF has been doing a good work. This has not been really highlighted to the Committee. We have been doing risk assessments. We have been getting international experts to do risk assessments for Fiji, to assess the risk of international shipping, especially the big ships and our local ships, the amount of traffic and where the big risk is.

From that report, it has been recommended this, and this and this, in certain locations. And from that report with their recommendation we have actually placed these four major locations, but it does not limit us to that. We might procure more equipment and look at the other medium risk and good to also deploy it there, ready for any response because when I say response, it is a national response for us.

But again from Tier 1, I would like to make it clear also that mobile companies have their own resources. They can respond to Tier 1 - smaller scales - Suva, Lautoka, Levuka and Labasa in Malau area where big ships go to, but most of the small ships are fishing boats, et cetera.

DEPUTY CHAIRPERSON.- Honourable Members, I believe there are no other questions.

On this note, I would like to thank, Mr. Tunidau and Mr. Kamlesh for your presence and indulgence. There were lot of interesting issues that we noted, especially in regards to the whole level of operation, some insides as to how work is done within your entity and also the introductory remarks about what the entity actually does. You did enlighten us and refreshed us with more knowledge of your organisation and I thank you for that.

Also, I thank in particular Mr. Dineshwar for highlighting this issue of grant. This issue has been our main subject of discussion from yesterday when we started our submission this week. Yes, lot of issues and clarifications were put in and we noted that.

Without further ado, I would like to give the opportunity to you, CEO, if you have some final comments before we conclude the session.

MR. J. TUNIDAU.- Thank you, Deputy Chairperson. The Marine Spill Advisory Committee, just for the information of this Committee, had already written up to the Minister. We are actually putting in a Board paper, the Board has agreed but under the legislation it is the Minister who appoints.

From the endorsement of the Board, we have written up to the Minister to appoint the Marine Spill Advisory Committee which is important because as per Honourable Aseri Radrodro's comments, they look at the fees, et cetera, under their jurisdiction.

HON. A.M. RADRODRO.- Minister for Environment or Minister of Transport.

MR. J. TUNIDAU.- You already know that, Deputy Chairperson.

Thank you for this opportunity, Deputy Chairperson and Honourable Members. It is a pleasure to present to the Public Accounts Committee, *vinaka*.

The Committee adjourned at 10.27 a.m.

The Committee resumed at 11.09 a.m.

Submittee/Interviewee: **Fiji Development Bank (FDB)**

In Attendance:

- | | | | |
|----|-----------------------|---|--|
| 1. | Mr. Mark Clough | - | Chief Executive Officer |
| 2. | Mr. Saiyad Hussain | - | General Manager Finance and Administration |
| 3. | Ms. Parijata Gurdayal | - | Media and Community Relations Officer |
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DEPUTY CHAIRPERSON.- Honourable Members, Secretariat staff, Office of the Auditor-General (OAG), members of the media and in particular, the two gentlemen and lady from the Fiji Development Bank (FDB); I would like to welcome you all to today's meeting of the Public Accounts Committee.

I welcome you, CEO – Mr. Mark Clough. I believe it is a very new appointment, so welcome on board. We are also joined by Mr. Hussein who is the General Manager Finance and Administration, and Ms. Gurdayal is our Media and Community Relations Officer.

We are here to discuss issues that we have sent to the entity and that is in regards to the 2015 Audit Report. Written questions were sent, with issues on:

- Allocation of Provision on Loan Accounts;
- Customer Risk Rating did not agree to Loan Risk Register;
- Loans and advances process control deficiency; and
- Fiji Development Bank nominees limited - Management Services provided without a valid contract.

I apologise, I forgot to introduce the Committee Members.

(Introduction of Members of Committee by Deputy Chairperson)

Without further ado, CEO, we would like to give you the opportunity to give us a brief introduction of your entity and from there you or your designated member can take us through the written submission that you have before us. Thank you.

MR. M. CLOUGH.- Thank you, Honourable Deputy Chairperson. I do not have too much to say because I am relatively new to the Bank. I am learning more and more about the bank, obviously from day to day.

The issues that you have identified we are aware of obviously, but I will refer to my colleague, the General Manager of Finance and Administration to do the bulk of the responses, if you do not mind.

DEPUTY CHAIRPERSON.- With your indulgence, of course, if you could just tell us a little bit more about your good self, strictly in a professional sense.

MR. M. CLOUGH.- I am from Australia, obviously. I have 35 years' experience in financial services, insurance, superannuation in Australia, including banking and investment banking, as well as advisory to the likes of large corporate and Government in Australia.

In terms of names of previous employers, they include; ANZ Bank, Deutsche Bank, Challenger Financial Services, as well as fairly large Life Offices, Capital and National Mutual as it was called a long time ago. I am an actuary by training but you might say, a lapsed one in that regard.

My recent career has been, I am advisory to Government on predominantly social infrastructure projects whether it will be public housing, renewable energy and the like, predominantly the funding of those but the focus professionally for me is always on the marriage of funding, investment, innovation, strategy and social link outcomes. And that is one reason why I was attracted to FDB when I was given the opportunity.

DEPUTY CHAIRPERSON.- So I believe the written submissions will be done by Manager Finance. Sir, you now have the opportunity.

MR. S. HUSSAIN.- Thank you, Honourable Deputy Chairperson and good morning Honourable Members of the Public Accounts Committee.

Referring to the questions, first on the allocation of provision of loans account; just for the information of Honourable Members, the FDB also complies with Reserve Bank of Fiji (RBF) Banking Supervision Guideline. In the Guideline there is a provisioning method that sets the minimum standards for any bank on how to do the provisioning setups. So in this case, FDB also follows the same guideline where we have three sets – the general provisioning, specific provisioning and unallocated provisioning.

So we have been following this since the inception of the Bank and in the year 2017, we had this sorted out with the OAG and our contract auditors – KPMG, so this issue has been resolved. And the Guideline that is set by the RBF has been followed by FDB and we will continue to follow that. So it is a methodology of how we do a provisioning and we are guided by the RBF Guidelines.

On the customer risk rating...

DEPUTY CHAIRPERSON.- I apologise, after every issue, Honourable Members would like to have some supplementary questions. So any supplementary question?

(There were no questions)

MR. S. HUSSAIN.- For the information of Honourable Members, we are also working on a new Standard called the International Financial Reporting Standard 9 or IFRS 9, that also deals with impairment provision. So we are trying to comply with the standards so it is effective from 1st July, 2018 for the Bank.

We are on the final verge of that matter to be completed and this also deals with how we do our impairment, how we do our provisioning so we also try to comply with the International Accounting Standards.

DEPUTY CHAIRPERSON.- Any questions?

Since there are no questions, we will move on to the next issue.

MR. S. HUSSAIN.- On the Customer Risk Rating, this has been the issue for the Bank in the past and this happens because our credit system is not automated in our system, it is a manual process.

So always there is a slight mismatch in terms of what is actually keyed in into the system and what is on the file.

What is the solution in moving forward? The solution is that, we are trying to get a new software for the Bank, that is, a core banking software and hopefully, the entire credit risk rating is automated so that this issue is resolved.

Why the Auditors have picked this up was because it affects how we do our provisioning, but as far as the Bank is concerned, we always have a provision on the higher side so any loss or anything, it is being covered in terms of when it is not taken up by the credit risk rating.

Deputy Chairperson, can I move on or are there questions from Honourable Members?

DEPUTY CHAIRPERSON.- Honourable Members any questions? As of now it is more so like manual.

MR. S. HUSSAIN.- Yes, it is a manual process where we do our credit risk rating.

DEPUTY CHAIRPERSON.- So if someone requires a loan, for example, in Nadi, does this new software (core banking software) that you are explaining is something similar to say, a loan approval, if someone comes for loan so you feed the information there?

MR. S. HUSSAIN.- Yes.

DEPUTY CHAIRPERSON.- I believe that is what you call the process of provisioning, I mean, somewhat similar. So you put the information there and then it will automatically approve or disapprove, something like that based on what guidelines you have. Is it something similar to what we have in the banks for unsecured loans, where you put in information and straightaway a decision comes - approved or not approved?

MR. S. HUSSAIN.- Yes, that is the entire process of loan application for loans, but provisioning is another methodology. Provisioning only happens for account that goes bad. It is an anticipated loss that we try to expense so it does not happen to all new accounts, it is just some loss accounts that we put some provisions in.

DEPUTY CHAIRPERSON.- So this is more so like a safety measure.

MR. S. HUSSAIN.- Yes.

DEPUTY CHAIRPERSON.- Thank you.

HON. A.M. RADRODRO.- A supplementary question regarding this process of provisioning, you mentioned that you were trying to follow the RBF. Why?

MR. S. HUSSAIN.- Because although we are not fully supervised by the Bank but these are the methodologies that had been set by the Bank and we have to comply with that.

We also do our reporting to RBF, so it is not as frequent as the commercial banks but we also report to them. It is a monthly report and then quarterly reports.

HON. A.M. RADRODRO.- So this reporting process, is it an initiative of FDB or is it a requirement by RBF, knowing RBF's role in looking after commercial banks? It is totally different from a development bank, like FDB.

MR. S. HUSSAIN.- It is both. We also want someone to supervise us. It is good for control purposes and RBF, I think they also want to supervise us so, at least, there is a control too. I think the Honourable Minister has also asked RBF that they also supervise us.

HON. DR. M.T. SAMISONI.- ... (inaudible)... carry on from that, my question is, you have a FDB Act?

MR. S. HUSSAIN.- Yes.

HON. DR. M.T. SAMISONI.- Depending on that, why do you have to be so dependent on RBF because you have your own role. My question is, you are a development bank.

MR. S. HUSSAIN.- Thank you. That is correct. We have an Act that governs the Bank but like this provisioning methodology and other guidelines are not set in the Act. It is available with RBF so they give it to all the commercial banks so all the commercial banks follow so we also try to follow that. These are the standards that are in line with the International Accounting Standards (IAS).

HON. DR. M.T. SAMISONI.- My question on that, so are you now a commercial bank?

MR. S. HUSSAIN.- No, we are not.

HON. DR. M.T. SAMISONI.- So, why are you following commercial banks?

MR. S. HUSSAIN.- No, no. We do not follow commercial banks, we do not.

MR. M. CLOUGH.- I think the point here is that, we are trying to attain another or higher level of diligence when it comes to our reporting and the information that we provide to authorities. We could remain or attain a lower level but we have chosen to be a little more diligent in what we do, a little more accountable and provide a little more information.

HON. A.M. RADRODRO.- Deputy Chairperson, just a supplementary question to that, we do not dispute about you trying to be more diligent in your reporting method but at what cost? In meeting RBF guideline, would you think you are trying at the same time to omit or somehow overlook at the primary role of the Bank in terms of provisioning guidelines?

You are trying to follow RBF's standard guideline which, of course, will be so much different from a development bank perspective. So in that process while you are trying to set your processes towards the RBF guidelines, do you think you are compromising the role of the RBF in terms of provisioning of its services?

MR. M. CLOUGH.- I do not believe so, Honourable Member. I think we are trying to merely attain a higher standard. The Act is the benchmark. The Act, in some respects as I had mentioned, does not address a lot of our requirements but we are going to an extra level, imposing additional standards on ourselves and not at a significant additional cost if it comes to reporting and compliance. We are just going to that extra level to be more conservative, be more prudent, more accountable and more diligent.

HON. DR. M.T. SAMISONI.-Fiji is a developing economy. In every way, all our resource base has not even been developed. And I hear you that you are trying to, sort of, make sure that you want to be more diligent at a higher standard to account and all that. But to be a development banker, there is a lot of need to bring in the resources that are already there that are not coming into the country, I believe.

There is land and sea, I come from the islands, there is a lot of maritime things there and there is a lot of finances needed. By the way, I was an FDB client and now I have moved on myself and gone into commercial, but I am just a little concerned that moving away from development banking, that you could really be cutting off your nose to spite your face. This concerns me a little bit because I know resource base, we have so much to do and being in business and then making sure that finance is accessible to business, it just concerns me a little bit and I just want to make mention that at this stage.

MR. M. CLOUGH.- If I could respond to that, there is absolutely no suggestion, Honourable Member, that we are moving away from development banking. Our statistics will show that we have a significant portion of the agricultural funding, marketing in particular.

A strategic plan moving forward is to be focussed on certainly any import or export balance so that the economy becomes more self-sufficient, and that may include; additional initiatives such as financing, agricultural clients further up the value chain so that, that value is not lost from the Fijian economy. So rather than put produce on a ship, we are thinking about the next stage of production which might add value and create more jobs. So our role as a development bank also extends into those community aspects, such as employment and engagement with the community which a lot of our competitors do not do.

HON. DR. M.T. SAMISONI.- I am always going on about the new economy and the need to innovate because sometimes that costs, but to be able to innovate also we need a bit more money.

I am just registering my concern that we do not move away from development banking. There is so much we can do, I believe, through innovation. In the old order, you have to account for everything but sometimes to innovate it just takes a little bit longer but you will account eventually.

MR. M. CLOUGH.- It does and we are 50 years old and we are in it for the long run and the word 'innovation' is one of our five core values.

HON. DR. M.T. SAMISONI.- Yes, I heard that.

MR. M. CLOUGH.- So we are entirely focussed on it.

HON. DR. M.T. SAMISONI.- I am glad you got that as your foundation and needs to be brought in, thank you.

DEPUTY CHAIRPERSON.- Thank you. We will note that point from the CEO, that the core responsibilities of the Bank will not change.

Sir, just a question out of interest and perhaps, if I can be assisted on this, the new Crop Insurance Scheme, is the Bank part of it as well because I believe you have lot of farmers as customers?

MR. M. CLOUGH.- We are looking at a number of products which were designed or targeted at our agricultural clients and they may be around insurance, they may be around land tenure, they are in development at the moment.

DEPUTY CHAIRPERSON.- We will move on to the next issue - Loans and Advances Process Control Deficiency.

MR. S. HUSSAIN.- Thank you, Mr. Deputy Chairperson. This has to do with our loan process. I think at times there are gaps where our process is actually not followed, et cetera, so we cannot see some things.

What we have done is that, we have put in lot of measures in trying to comply with all our policies and processes. We have recently created three Regional Manager positions - Northern, Central/Eastern and West. The role of these Regional Managers is to monitor all loan accounts, look at the disbursement and look at post settlements and ensure that all customer files are updated, there is no breach in policies, there is no breach in process.

We also have segmentation in terms of our credit risks where decisions are made by the frontline officers, so there is a demarcation of responsibility in terms of frontline officers who do sales and then the people who made the decision.

We also have empowered our internal audit team who go through all the files when they go and audit in the centres. They look at all the entire process and policies to see if there are no breaches, so these are some of the things that we have put in place.

We also have increased the level of delegation for officers who approve and look at bigger loans, so there is a lot of separation in duties to control all those deficiencies, that we do not leave any gaps in terms of our process and policies.

DEPUTY CHAIRPERSON.- Thank you. Honourable Members, any questions on that?

HON. A.M. RADRODRO.- A supplementary question in terms of new loans for people who are involved in agriculture. In really speaking from experience as a customer of FDB in terms of accessibility, in terms of your risk rating application that you do at the Bank, there is always situation where the Bank does not always fulfil what is required in terms of people coming in for a loan. There seems to be lack of satisfactory explanation by the Bank's Officials to justify the decision that has been made, decision that has been taken by the Bank and eventually will lead to the proposed project, proposed loans not fully materialised because somehow the decisions are always from the Bank's perspective instead of customer perspective, therefore, I see this No. 1 there is a general specific allocation.

The allocations that you give for general specific provisions, how much of that are basically for small to medium sized loan customers who are involved in the overall infrastructure industry in your general provision? Is it kind of link from the loan application where customers are not adhering to the requests that are given and the Bank's decision is based on the Bank's assessment or Bank's provision and somehow they do not meet, therefore, resulted in non-full implementation of projects?

MR. S. HUSSAIN.- Thank you, Honourable Member. There are two things; one is the general provisioning and the other thing is the loan process in terms of the agriculture customers not fulfilling the entire requirement of the Bank. So is not that, that they do not fulfil the entire requirements, we do not look at their proposal, it is just a guideline. So we also go out of that to help our customers. So maybe if a customer comes he does not have all the requirements in terms of deposit or security but we

still have them. So I understand and I believe what you are saying in terms of the risk of agriculture customers. I think they are more risky customers than the smaller ones.

MR. M. CLOUGH.- Just further to that, that does not necessarily mean that we will decline a loan. What it may mean is that, we have to impart greater supervision and management of that loan, even education. So a lot of our potential customers come to us and there is a great deal or a lack of financial literacy, for example, which is why we the Bank is heavy into financial literacy, whether it will be schools, whether it will be the community in general, whether it will be customers. It is a means of reducing risk for the Bank specifically and for households more generally.

So there are number of criteria, yes, there are certain applicants who we cannot meet their requirements because of the level of risk. Hopefully, the outcome for them is a quick 'no' or considered 'no', as distinct from prolonging the process. Hopefully the answer is a 'yes', if they have satisfied all the requirements but that is a totally different process, the application process from the provisioning process which is after the loan is approved and is into its life.

HON. A.M. RADRODRO.- Just an addition to that, Deputy Chairperson, your strategies that you highlighted - the five steps, for agriculture, at which point do you undertake a visitation or risk assessment for a particular agricultural client of yours, in terms of the processes of controls for loans and advance processes that you have highlighted here?

MR. M. CLOUGH.- The process starts at the Branch. The process starts with information that their client needs to submit and then a preliminary assessment is done by the Branch Officer. If it is a larger loan, then as per item five on that list it needs to be moved up to the next level of approval. There may be some loans which are small enough and compliant enough where all the information has been provided, that can be approved at the Branch level.

HON. A.M. RADRODRO.- One of the requirements for agriculture loan, the supporting information or plan from Ministry of Agriculture. Even with all those requirements, the Bank still does not give a full 100 percent for new loans. I think the FC would be well aware of this?

MR. M. CLOUGH.- I think what you are describing, Honourable Member, is a particular programme that is being implemented by the Government as distinct from an agricultural client that might just come to our Branches without any particular programme being in place.

HON. A.M. RADRODRO.- What I am basically saying is, the requirement for agricultural loans for individuals (not companies), who wish to apply for a loan at the FDB, and one of the requirements, apart from all others, is the submission of the...

MR. S. HUSSAIN.- You are saying the Ministry of Agriculture Technical Facility Study?

HON. A.M. RADRODRO.- Right.

MR. S. HUSSAIN.- That is correct, Honourable Member, but what happens that is one part of the requirement.

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

MR. S. HUSSAIN.- No, these are not in that requirements, these are after the loans are approved and then our officers will look at all the files to see if there are any breaches in terms of our process and policies. So we do not want that to happen.

But I agree with you when you say that not all the loans are approved by the Bank. Besides that feasibility study by the Ministry of Agriculture, there are other requirements; that the project should be viable on its own, that it is able to repay the loan within that term specified by the Bank. There is enough security there but most of the time, we also lend to agriculture farmers without security. So I agree with you that we do not finance all the loans that come because there are chances that the project may not be viable and the customer may not be able to pay. So those are some of the reasons that we take into consideration here.

DEPUTY CHAIRPERSON.- Thank you. We will move on to the next one.

MR. S. HUSSAIN.- Thank you, Honourable Deputy Chairperson. The next one is in regards to our subsidiary company, that is, Fiji Development Bank Nominees Limited (FDBNL). This has to do with our Management Contract with Fiji Investment Corporation Limited (FICL). This emanated from the Cabinet decision on 9th June, 2009 where Cabinet agreed that the operation of FICL be handled by FDB nominees.

So we signed an agreement in August 2010 and it was physically handed to the FDB nominees in July 2011. It was a three-year Agreement but we took over FICL after one year so we had a chance of looking at its operations for two years.

After the expiry of the Agreement, we liaised with the Ministry and there was some lapse and that the Agreement was not renewed on time. So in good faith since it was a Government company or a statutory body, we continued to look after all the accounts and we continued to manage the company. There was no Board at that time. We have a FICL Board now which is now looking into the Management Agreement.

DEPUTY CHAIRPERSON.- I think that explains quite precisely and I believe that was the last issue. Honourable Members, any question?

HON. A.M. RADRODRO.- A supplementary question on the first one, Deputy Chairperson. The auditors have highlighted that about \$16.9 million has been given as general provision.

MR. M. CLOUGH.- Yes.

HON. A.M. RADRODRO.- What percentage of the portfolio is that, the general provisioning?

MR. S. HUSSAIN.- I think it is about 3 percent.

HON. A.M. RADRODRO.- That is in line with the RBF requirement.

MR. S. HUSSAIN.- Yes, that is correct.

HON. A.M. RADRODRO.- Your FDB Act?

MR. S. HUSSAIN.- Under the FDB Act, it does not specify any guideline there in terms of Provisioning Act.

DEPUTY CHAIRPERSON.- Thank you, Honourable Members, I believe that is the conclusion of our session.

I thank you, CEO, and your team for your indulgence and for addressing the supplementary questions as well. We wish you the best of wishes in your new position and I hope you are finding Fiji a good place to stay too.

So, without further ado, if we can have some final comments before we conclude our session, please.

MR. M. CLOUGH.- Thank you, Deputy Chairperson and Honourable Members. I am enjoying Fiji immensely, not just my staff but the community in general. It is invigorating, to say the least.

The Committee adjourned at 11.43 a.m.