

## Foreword

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The financial year end for Government was changed from 31 December to 31 July in accordance with the Financial Management (Amendment) Act 2016. In February 2016, the nation was devastated by severe Tropical Cyclone Winston which became the strongest tropical cyclone to make landfall in Fiji and the South Pacific Basin in recorded history. Immediately following the cyclone, Government with the support of the local and international community engaged in rehabilitation works which are still continuing as a result of the large extent of damage to infrastructure.

The accounts of Whole of Government of Republic of Fiji together with 36 Ministries and Departments (Agencies) for the seven-month period ending 31 July 2016 were audited during 2016/2017. The audit reports and significant audit findings have been reported in accordance with section 152 of Constitution of the Republic of Fiji.

The audit of financial statements for Whole of Government for the period ending 31 July 2016 concludes with an unqualified audit report. The accounts have been faithfully and properly kept in accordance with section 152(2) of the Constitution, section 6 of the Audit Act 1969 and sections 46 and 47 of the Financial Management Act 2004.

However, emphasis has been made to improve expenditure authorization and budgetary control, reconciliation of Trust Fund and Trading and Manufacturing Accounts against the general ledger and funds kept in bank accounts. In addition, the accounts of government has not been consolidated with the financial statements of other controlled entities, as voluntary disclosure, to promote accountability and transparency.

The financial statements of the Republic of Fiji have been presented in accordance with the Financial Management Act 2004 with direct reference to the budget estimates of Government. Presentation and certain disclosures have also been made in accordance with cash-basis International Public Sector Accounting Standards (IPSAS).

The audit reports comprise of four volumes which have been presented in accordance with the budget sectors as follows:

Volume	1	Audit Report on the <i>Accounts and Finance</i> of Government
	2	Audit Report on the General Administration Sector
	3	Audit Report on the Social Services Sector
	4	Audit Report on the Economic Services and Infrastructure Sector

Volume 1 of the report should be read in conjunction with the 2016 financial statements for Whole of Government, the appropriation statement of the Republic of Fiji and my opinion expressed on them for the year ended 31 July 2016. Since the 2016 financial statements reflect transactions for a seven-month

period whereas the 2015 financial statements is for a 12-month period, there are significant variances with the comparative balances.

#### ***Audit Opinion on respective Ministry/Department (Agency) Financial Statements***

A total of 36 Agency Financial Statements were prepared in accordance with the Financial Management Act 2004 and Finance Instructions 2010. Of these, unqualified audit reports were issued on 23 financial statements while audit reports on 13 financial statements were qualified on the following grounds:

- Closing account balances were not always properly reconciled or not reconciled at all resulting in unexplained variances which were significant in some cases ; and
- Financial transactions were not always properly supported or not supported at all by relevant supporting documents.

#### ***Trust Fund Accounts***

Large amounts of funds are held in Trust Fund account and transactions of significant value were made from these accounts during the financial year. However, proper books of records were not maintained for some accounts while others were operated without documented and approved Standard Operating Procedures. In addition, definite plans on how the substantial closing balances in some accounts would be utilized in the next twelve months, was not sighted. Due to these reasons, there is a high risk of funds held in trust being utilized for purposes which were not intended.

#### ***Trading and Manufacturing Accounts***

Financial transactions of significant value are also effected through Trading and Manufacturing Accounts (TMAs) operated by Ministries and Departments. Similar to Trust Fund accounts, Standard Operating Procedures have not been documented and approved for the operation of some TMAs. The operation of TMAs which were set-up by Government years ago, have not been reviewed in view of their need in the current business environment. Hence some TMAs seem to have outlived their purpose.

#### ***Public debt***

At the end of financial period ended 31 July 2016, the percentage of national debt relative to GDP (provisional figure) at 46% when compared to 2015. The percentage growth in Government debt was same as the percentage growth in the economy resulting in no change in the debt burden of individuals in 2016.

The Government needs to sustain its existing resources to fund its current programs, commence new projects as well as meet existing creditor obligations in order to maintain the level of borrowings at a sustainable level.



## Response to WOG Audit Issues for 2016 Accounts

### 1.0 Financial Position of Government

The financial statements for the Government of the Republic of Fiji have been drawn up in accordance with IPSAS under the 'cash-basis of accounting' and the provisions of the Financial Management Act 2004.

### 1.1 Financial Performance 2016

The performance of the Fiji Government for the year 2016 is provided in Table 1.1.

**Table 1.1 Government Performance in 2016**

Item	Original Budget 2016 (\$'000)	Revised Budget 2016 (\$'000)	Actual Results 2016 (\$'000)	Variance <sup>1</sup> 2016 (\$'000)	Variance (%)
<b>REVENUE</b>					
Operating Receipts	2,770,093.7	2,770,093.7	1,433,248.4	1,336,845.3	48
Investing Receipts	358,637.4	358,637.4	67,559.8	291,077.6	81
<b>TOTAL REVENUE</b>	<b>3,128,731.1</b>	<b>3,128,731.1</b>	<b>1,500,808.2</b>	<b>1,627,922.9</b>	<b>52</b>
<b>EXPENDITURE</b>					
Operating	2,024,870.5	2,033,999.8	1,144,303.6	889,696.2	44
Capital	1,340,573.1	1,330,033.8	590,689.0	739,344.8	56
Value Added Tax	49,092.9	50,502.9	21,689.8	28,813.1	57
<b>TOTAL EXPENDITURE</b>	<b>3,414,536.5</b>	<b>3,414,536.5</b>	<b>1,756,682.4</b>	<b>1,657,854.1</b>	<b>49</b>
<b>NET DEFICIT</b>	<b>(285,805.4)</b>	<b>(285,805.4)</b>	<b>(255,874.2)</b>	<b>(29,931.2)</b>	<b>10</b>
Debt Repayment	159,630.7	159,630.7	91,250.8	68,379.90	43
<b>GROSS DEFICIT</b>	<b>(445,436.1)</b>	<b>(445,436.1)</b>	<b>(347,125.0)</b>	<b>(98,311.1)</b>	<b>22</b>
Net Deficit As A Percent of GDP	(2.9%)	(2.9%)	(2.6%)	(0.3%)	10
<b>NOMINAL/PROVISIONAL GDP</b>	<b>9,691,109<sup>[n]</sup></b>	<b>9,691,109<sup>[n]</sup></b>	<b>9,852,704.1</b>	<b>(161,595.1)</b>	<b>(2)</b>

Source: Schedule 2 of the Financial Statement of the Government of Fiji Financial Statements

Original Budget 2015 is sourced from the 2015 Budget Book.

[n]: Nominal GDP Figure [Source: Republic of Fiji Budget Estimate 2016]

2016 Actual GDP figure was provided by Macroeconomic committee

The actual gross deficit for the year was \$347.1 million which was \$98.3 million less than the original forecast of \$445.4 million. The reduction in gross deficit is attributed to the change in financial year from 31 December to 31 July in accordance with the Financial Management (Amendment) Act 2016. The actual revenue and expenditure stated for the period ended 2016 reflect transactions for a seven- month period whereas the budget is for a 12 month period.

## **1.2 2016 Appropriation Act**

There were thirty eight appropriation heads in the 2016 budget. The expenditure under the various Ministries/Departments and variances noted are detailed in **Appendix 1**. Against a revised budget of \$3,414,536,487; the government spent \$1,756,682,415; resulting in a budget saving of \$1,657,854,072 or 49%.

The financial year end for Government was changed from 31 December to 31 July in accordance with the Financial Management (Amendment) Act 2016. The expenditure stated for the period ended 2016 reflect transactions for a seven-month period whereas the budget is for a 12-month period, thus the significant savings percentages.

Under the Lending Fund appropriation of \$62.8 million, there was an outstanding balance of \$267.6 million at the beginning of 2016 which increased by the end of the financial period with the inclusion of the Public Rental Board loan of \$10.9million. However, there were also recoveries of \$5.1 million during the year with major collections being from students under the loan scheme of \$0.3 million and recovery from i-Taukei Affairs Board of \$0.2 million, Fiji Pine Commission of \$1.2 million and Housing Authority of \$3.3 million.

## **1.3 Operating Results**

A net deficit totaling \$255.9 million was recorded in 2016 as shown in Table 1.1 compared to the forecasted net deficit of \$285.8 million; an improvement by \$29.9 million or 10%.

The net deficit for 2016 as a percentage of GDP was 2.6%, a reduction of 0.3% from the budgeted net deficit of 2.9%.

## **1.4 Treasury Bills**

Domestic loans were raised in accordance with the approved budgets while the excess borrowings were in the form of Treasury Bills. The outstanding Treasury bills at the beginning of the year totaled \$143.3 million. Treasury Bills raised during the year amounted to \$211.8 million and \$163.8 million was outstanding as at 31 July 2016. Table 1.2 details the loans raised by government to finance its budget deficits over the last 10 years.

**Table 1.2 Original Budget Deficit vs. Loans Raised**

Details	2007 (\$)	2008 (\$)	2009 (\$)	2010 (\$)	2011 (\$)	2012 (\$)	2013 (\$)	2014 (\$)	2015 (\$)	2016 (\$)
Gross Deficit	369,552,279	225,554,800	498,557,100	363,566,600	302,976,000	338,436,800	398,973,400	385,435,100	363,522,000	445,436,700
Domestic Loans	100,536,321	341,266,932	404,239,758	452,734,100	81,470,500	192,102,000	172,822,000	233,405,800	257,356,129	295,166,984
Overseas Loans	19,855,800	20,802,800	25,476,800	61,949,500	569,043,100	136,428,700	99,466,291	120,241,251	544,436,074	80,667,618
Treasury Bills	685,889,200	391,725,900	253,821,700	687,313,100	411,970,900	306,664,500	138,122,146	306,883,399	332,840,640	211,787,728
Loans	806,281,321	753,795,632	683,538,258	1,201,996,700	1,062,484,500	635,195,200	410,410,437	660,527,650	1,134,632,843	587,622,330
Deficit %	218%	334%	137%	331%	351%	188%	103%	171%	312%	132%
Excess Borrowings %	(118%)	(234%)	(37%)	(231%)	(251%)	(88%)	(3%)	(71%)	(213%)	(32%)

The 2016 budget funding program 3 appropriated \$445.4 million (equal to the forecasted gross deficit) in loan funds to finance the gross deficit. However, a total of \$587.6 million was raised in loan funds resulting in excess borrowing of \$141.8 million or 32% in 2016

## 1.5 Consolidation of Accounts of Controlled Entities

### Issue

Audit noted that the whole of government financial statements for 2016 included only the accounts of government Ministries and Departments and did not consolidate the financial statements of other controlled entities. The controlled entities for government include the State Owned Entities such as Government Commercial Companies, Commercial Statutory Authorities and Statutory Authorities.

### Ministry's Comments

Hon. Chair and Members of the Committee,

The consolidation of controlled entities had been the requirement for the cash based IPSAS for this financial year. However, this requirement has been revised by the IPSASB in 2017 (published October 2017) noting the challenges that Governments faced in consolidating these. The cash based IPSAS financial reporting is now divided into two parts for presentation and disclosure requirements – Part 1 being “*Mandatory*” requirement while Part 2 being “*Encouraged*”.

The 2017 IPSAS cash based financial reporting has placed the “consolidation” of controlled entities to Part 2 as “encouraged” presentation and disclosure requirement that is non-mandatory.

“In 2017, a revised cash based IPSAS was issued. The objectives of the revisions were to remove obstacles to the adoption of the cash based IPSAS represented by the existing requirements dealing with consolidation.....”

Noting that the first cash based IPSAS financial reporting financial statements was prepared in year 31 December 2015, a plan for the adoption of the cash based IPSAS across Ministry / departments following its transition to accrual IPSAS is the current focus.

The focus is also supported generally by IPSASB on the transition to accrual IPSAS for Governments that has resulted in the revision of the cash based IPSAS for public sector reporting in respect of controlled entities. The controlled entities, nonetheless, are preparing financial statements in accordance with the International Financial Reporting Standards (“IFRS”) and with the International Financial Reporting for Small and Medium Sized Entities (“IFRS for SMEs”).

#### **1.6 Delay in submission of Agency Financial Statements by Ministries and Departments.**

The annual financial statements required to be included in the annual report for a budget sector agency must be prepared in the manner and times required by the Finance Instructions, and contain the particulars required by or under the Finance Instructions.<sup>5</sup>

The draft financial statements must be submitted to the Auditor-General by 31 March in the following year, or within such other time as agreed by the Permanent Secretary with the AuditorGeneral.<sup>6</sup>

In the definition of “financial year”, deleting “a year ending on and including 31st December or such other date” and substituting “a 12-month period beginning on and including 1 August and ending on and including 31 July, or such other dates”.

Due to the change in the government financial year as per the Financial Management (Amendment) Act 2016, Ministries and Departments were required to submit their annual agency financial statements to the Auditor General by October 31, 2016. However, audit noted that only three out of the total of 35 agencies complied with this legislated deadline. The remaining 32 entities submitted their accounts between 2 December 2016 and 21 April 2017 which was up to 6 months after the due date. Refer to Table 1.3 for details.

**Table 1.3 Submission dates of Ministries and Departments Agency financial statements for 31/07/16**

Head No	Ministry/Department	Date AFS Received
1	Office of the President	31/01/17
2	Office of the Prime Minister	23/12/16
3	Attorney General and Solicitor General	28/02/17
4	Ministry of Economy	10/02/17
5	Ministry of iTaukei Affairs	29/03/17
6	Ministry of Immigration, National Security and Defense	31/01/17
7	Ministry of Employment, Productivity and Industrial Relations	30/01/17
8	Ministry of Foreign Affairs	21/01/17
9	Office of the Auditor General	13/09/16
10	Fijian Elections Office	26/01/17
11	Judiciary	02/12/16
12	Parliament	09/09/16
14	Office of the Director of Public Prosecutions	23/12/16
15	Ministry of Justice	01/02/17
15	Ministry of Justice (Fiji Corrections Service)	22/02/17
16	Ministry of Communications (Information, Technology & Computing Services)	17/02/17
16	Ministry of Communications (Information & Communication)	19/12/16
17	Ministry of Civil Services	19/12/16
18	Ministry of Rural and Maritime Development and National Disaster Management	06/02/17
19	Ministry of Rural and Maritime Development and National Disaster Management	22/12/16
20	Fiji Police Force	23/12/16
21	Ministry of Education, Heritage and Arts	22/12/16
22	Ministry of Health and Medical Services	12/04/17
23	Department of Housing	18/04/17
24	Ministry of Women, Children and Poverty Alleviation	02/02/17
25	Ministry of Youth and Sports	19/09/16
30	Ministry of Agriculture	08/03/17
32	Ministry of Fisheries and Forests	30/01/17
33	Ministry of Lands and Mineral Resources	04/04/17
34	Ministry of Industry, Trade and Tourism	14/12/16
35	Ministry of Sugar	06/02/17
36	Ministry of Public Enterprise	28/12/16
37	Ministry of Local Government, Urban Development and Environment	18/04/17
40	Ministry of Infrastructure and Transport	21/04/17
49	Peacekeeping Missions	22/12/16

Furthermore, the Whole of Government Financial Statements was submitted for audit on 7 April while the revised financial statements was submitted via email on 1 May 2017.

The delay in the submission of Agency Financial Statements across Ministries and Departments contributed to the delay in the finalizing of the audit of Whole of Government Financial Statements for the year ended 31 July 2016.

### **Recommendation**

**The Ministry should take proactive measures in ensuring that all Accounting Heads work towards preparing and submitting their annual financial statements before 31 January so that audit reports can be issued prior to 30 April each year.**

### **Ministry's Comments**

We note the delay in the submission of agency AFS. This was the underpinning factor was the change in the financial year which required the configuration of the FMIS system. This contributed the slight delay which was swiftly addressed. More importantly we have developed the *financial statement checklists* for Ministry / department as a guide to follow when preparing the Agency Financial Statements. *Respective Permanent Secretaries* have been advised on the need for *timely preparation and submission of draft accounts* to the auditors. Refer to **Appendix 1.1** for details.

We will also be reviewing the staff capability and capacity specifically for the financial reporting and other accounting duties in respective Ministry / department via our Monitoring & Evaluation team and making recommendations accordingly. We have noted that inadequate staff in respective Accounts sections of respective Ministry / departments is a result of the delayed draft financials for audit purpose.

## **1.6 Audit Opinion of all Ministries and Departments financial statements**

The annual financial statement for a budget sector agency must –

- (a) be signed by the chief executive officer of the agency or by a person specified for that purpose in the Finance Instructions; and
- (b) be audited by the Auditor-General and be accompanied by his or her audit opinion.

The Auditor General's audit opinion on the annual financial statements as at 31 July 2016 of all Ministries and Departments are presented in Table 1.4 below.



**Table 1.4 Audit Opinion of all Ministries and Departments financial statements**

No.	Ministry	Audit Opinion	Basis of Qualification
1	Office of the President	Qualified	Prior year balances in the Revolving Fund Account totaling \$776,847 were cleared by posting to various expenditure allocations without adequate supporting documents being provided to audit thus overstating expenditure of the Office in the current period by the same amount.
2	Office of the Prime Minister	Unqualified- Emphasis Matter of	The Mahogany Industry Council Trust Fund Statement of Receipts and Payments includes Trust Receipts for License fees of \$1,110,987. The Office did not perform monthly reconciliations between the logs harvested/ sold by Fiji Hardwood Corporation Limited and the fees collected for Licenses; the Council is yet to determine the total accounts receivable as at 31 July 2016
6	Ministry of Immigration, National Security and Defense	Qualified	An unreconciled variance of \$94,197 exists between the Integrated Border Control Management Systems (IBMS) which records the Department of Immigrations operating revenue and the amount posted in the FMIS General Ledger, As a result, I was unable to substantiate the correctness of the operating revenue balance of \$7,197,414 recorded in the financial statements for the period ended 31 July 2016
7	Ministry of Employment, Productivity and Industrial Relations	Qualified	Drawings Account balance of \$206,037 include stale cheques totaling \$97,416 which was not journalized at financial year end. As a result the Drawings Account balance and expenditure of the Ministry is overstated by \$97,416.
11	Judiciary	Qualified	A variance of \$501,308 existed between the Judiciary Trust Fund Cash at bank balance of \$25,779,288 in the FMIS general ledger which includes Sutors, Maintenance and Sundries Trust accounts and the Judicial Trust Fund Bank Reconciliation balance of \$25,277,980 as at 31 July 2016. Furthermore, the Trust Fund reconciliation for Sutors, Maintenance and Sundries Trust accounts were not carried out since May 1992.
15	Ministry of Justice	Qualified	<ol style="list-style-type: none"> <li>1. Un-substantiating opening balance for Official Receiver Liquidation Trust \$647,508 and the Official Receiver Bankruptcy Trust Account \$176,520.</li> <li>2. Ministry did not maintain detailed listing of the beneficiaries of the Trust Accounts. Consequently, audit was not able to substantiate the completeness of the closing balances of \$617,248 and 219,630 reflected in the Statement of receipts and payments for the Official Receiver Liquidation Trust and the Official Receiver Bankruptcy Trust Without further Qualifying the opinion expressed above, draw your attention to:*FICAC is conducting a fraud investigation on the Official Receiver and operations of the Trust accounts. The impact, if any, of the outcome of the fraud investigation on the financial statements for the period ended 31 July 2016 cannot be presently determined</li> </ol>
17	Ministry of Civil Services	Qualified	The Ministry of Civil Service under Budget Head 17 recorded Miscellaneous Revenue of \$1,002,443 for the period ended 31 July 2016. This could not be verified as the Ministry was not able to provide appropriate audit evidence to support the balances.

# Response Whole of Government Audit Report 2016

No.	Ministry	Audit Opinion	Basis of Qualification
19	Republic of Fiji Military Forces	Qualified	<p>1. Total receipts include VAT on revenue of \$29,852. This amount is VAT Refunds due from FRCA, based on the client's own calculations. Such amounts are only recognized under the accrual basis of accounting, and not under the cash basis of accounting. Consequently, the receipts are overstated in the financial statements.</p> <p>Trading and Manufacturing Activities Account 2. Total sales include revenue of \$36,570 collected for 2015. The amount was directly deposited in the bank account in 2015 and was recorded in the FMIS general ledger in 2016. Consequently, the sales are overstated in the financial statement.</p> <p>3. There was no independent verification carried out for the Inventory account balance of \$25,363. Consequently, audit could not substantiate the completeness of Inventory.</p> <p>5. The Engineers Project Trust Fund Account Statement of Receipts and Payments for RFMF Engineers Project Fund Account was not included in the Agency Financial Statement contrary to Section 71(1) (g) of the Finance Instructions. Total Payments amounted to \$387,487. Transactions from this account were not recorded in the FMIS general ledger contrary to Section 15 of the Finance Instructions 2010. Without further qualifying the accounts, attention were drawn to the following matters:</p> <p>The RFMF did not carry out a board of survey to verify the existence and condition of assets under its authority contrary to Section 49 of the Finance Instructions 2010. Internal controls in the critical areas of the RFMF's operations were generally found to be weak and if not addressed promptly may result in financial losses in the near future.</p>
22	Ministry of Health and Medical Services	Qualified	<p>1. Included in the Miscellaneous State Revenue of \$844,360 is License &amp; Other revenue of \$679,454.93 posted in error thus overstating Miscellaneous State Revenue by the same amount.</p> <p>2. Main Trust Fund Accounts-Net adjustments totaling \$875,569 relating to prior year trust fund receipts and payments were made in the current year's general ledger for the (1) Cardiology Services Trust Fund and (2) Sahyadri Trust Fund Accounts to reconcile the ending cash balances held against the two trust fund accounts. The details of the prior year adjustments were not provided.</p> <p>3. Proper monthly reconciliation of the cash at bank balance, cash general ledger and cash book for these trust fund accounts were not carried out for all the seven months period ending 31 July 2016.</p> <p>4. Moreover, attention was also drawn to the following; 1. The total retention sums deducted from contractual progress payments for capital works made by the Ministry were neither transferred to a separate operating trust fund account nor were they recognized as capital expenditures</p>

Response Whole of Government Audit Report 2016

No.	Ministry	Audit Opinion	Basis of Qualification
			during the period. The Ministry was also unable to provide reconciliation for all the retention monies as at 31 July 2016.
23	Department of Housing	Qualified & Emphasis of Matter	<p>The City Wide Informal Settlement Upgrading Trust Fund account for the Department had a closing balance of \$7,269 for period ended 31 July 2016. The Department did not maintain proper records including cash books. Proper bank and trust reconciliations were also not performed for the trust account. As a result, I was not able to ascertain the accuracy and correctness of the amount reflected in the trust account.</p> <p><b><u>Emphasis of Matter</u></b> Without further qualifying the opinion expressed above, I draw attention to the following: The Department did not carry out an annual board of survey to verify the existence and condition of all assets under its authority contrary to Section 49 of Finance Instructions 2010. The last survey was carried out on September 2016 for the financial period 1 January 2015 to 31 December 2015.</p>
25	Ministry of Women, Children and Poverty Alleviation		<p><b><u>Emphasis of Matter</u></b> The accounts provide disclosure for additional funds of \$19.9 million distributed by the ministry for Tropical Cyclone Winston Rehabilitation Programs. The assistance, sourced from Budgetary Head 50 under the Ministry of Economy, was paid to all social protection program recipients. The ministry's involvement in the Help for Home Initiative was restricted to distribution of hardware cash cards according to pre-determined lists provided to the ministry</p>
30	Ministry of Agriculture	Qualified	<p>1. The Ministry transferred \$457,469 of excess cash from TMA operations to the Consolidated Fund Account with the Ministry of Economy. The journal entry passed to effect the transfer had a nil effect on the general ledger. As a result, this amount was still reflected in the Consolidated TMA Balance Sheet. Consequently, the cash amount of \$559,372 and TMA Surplus Capital Retained of \$1,125,622 in the Consolidated TMA balance sheet as at 31 July 2016 are both overstated by \$457,469.</p> <p>2. Appropriate supporting documents for adjustments amounting to \$318,494 to the cash account for the Trust Account were not provided to audit. In addition, a variance of 354,402 existed between the detailed listing of beneficiaries of the Trust Account and the amount recorded in the general ledger. As a result, I was unable to ascertain the accuracy and completeness of the closing balance of \$684,162 reflected in the Trust Statement of Receipts and Payments.</p>

Response Whole of Government Audit Report 2016

No.	Ministry	Audit Opinion	Basis of Qualification
32	Ministry of Fisheries and Forests	Qualified	<p>1. Unreconciled variance of \$224,312 between the fishing license fees of \$405,640 and FMIS GL balance of 629,952. Consequently, I could not confirm the accuracy and completeness of revenue amount.</p> <p>2. There was no independent audit verification carried out for the Raw Materials of \$16,792 and Finished Goods of \$1,229 in the TMA Balance Sheet. Consequently, I could not confirm the accuracy and completeness of inventory amount.</p> <p>3. There is an unreconciled variance of \$113,993 between the opening FMIS general ledger balance of \$79,641 and the opening balance of the Trust Account Statement of Receipts and Payments of \$193,634. In addition, the adjustment of the \$113,993 passed during the year were not supported with appropriate supporting documents. As a result, I was not able to ascertain the accuracy and completeness of the Main Trust Fund account balance.</p>
37	Ministry of Local Government, Urban Development and Environment	Qualified	<p>The Environment Trust Fund account for the Ministry had a closing balance of \$2,781,989 for period ended 31 July 2016. The Ministry did not maintain proper records including cash books. Proper bank and trust reconciliations were also not performed for the trust account. As a result, I was not able to ascertain the accuracy and correctness of the amount reflected in the trust account. Without further qualifying the opinion expressed above, draw attention to the following:</p> <p>The Ministry did not carry out an annual board of survey to verify the existence and condition of all assets under its authority contrary to Section 49 of Finance Instructions 2010. The last survey was carried out on September 2016 for the financial period 1 January 2015 to 31 December 2015.</p>
40	Ministry of Infrastructure and Transport	Qualified	<p>1. Several Trading and Manufacturing Accounts (TMA) did not disclose cash at bank account in the TMA balance sheet as at 31 July 2016. However significant amount of receipts and payments were recorded in the TMA profit and loss statements. Separate cash account general ledgers were not maintained for these TMAs.</p> <p>In addition, Consolidated TMA balance sheet had cash at bank balance of \$3,766,112 while consolidated bank reconciliation balance was \$2,493,936 as at 31/07/16. A variance of \$1,272,176 was noted.</p> <p>2. A variance of \$210,188 existed between the subsidiary records of debtors totaling \$210,188 and the FMIS accounts receivable nil balance as at 31 July 2016. The Ministry did not reconcile the two records. I was not able to ascertain the correctness of nil accounts receivable balance stated in the Consolidated TMA balance sheet as at 31 July 2017.</p>
49	Peacekeeping Missions	Unqualified with EOM	<p>The Peacekeeping Missions did not carry out a board of survey to verify the existence and condition of the assets under its authority contrary to Section 49 of the Finance Instruction 2010.</p>

Out of the 35 Ministries and Departments for which audit reports were issued, 19 Ministries had unqualified audit opinion, 13 audit opinions were qualified and three audit opinions were unqualified but had emphasis of matter in the audit reports. Apart from other issues, four audit reports were qualified due to issues relating to Trading and Manufacturing Accounts and nine on matters relating to Trust Fund Accounts.

## **Recommendations**

- **The Ministry of Economy should consider carrying out a review of the Trading and Manufacturing Account (TMA) across government with a view to determine their relevance and need considering that they were set up many years ago and may have outlived their purpose.**

Comments are noted and the Ministry of Economy are looking into drafting a circular in review of the TMA policy while site visits are conducted every quarter to evaluate the relevance and existence of TMA viability.

- **The Ministry of Economy should also consider carrying out a review of the Trust Fund Accounts to determine the manner in which funds held would be utilized hence managing government's liability at manageable levels.**

The need for the review of Trust funds accounts held has been discussed in the Accounting Heads forum and Accounting Heads are requested to provide on the need for the trust account and should the purpose has been met, these trust accounts need to be closed in consultation with their respective Permanent Secretaries. **Appendix 1.2**

## **2.0 Cash and Cash Equivalents**

A bank account for public money, other money or trust money must only be established with the approval of the Chief Accountant, who must inform the bank of the agency officers authorized to operate on it. All agency bank accounts must be kept in the name of the agency or the official title of a unit within the agency.

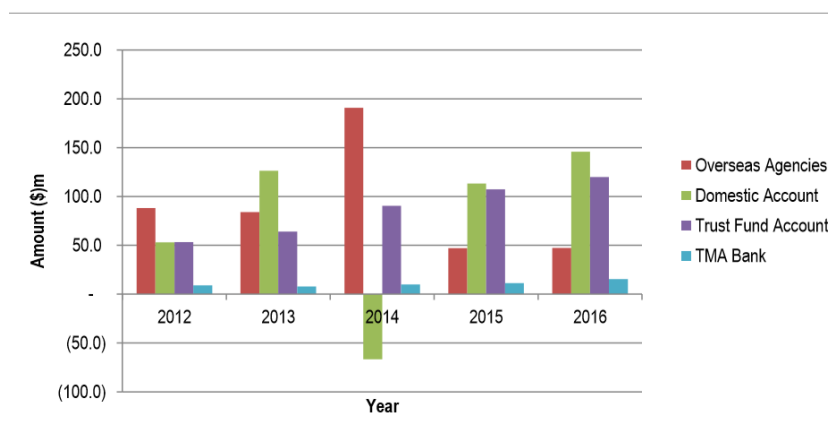
The cash and cash equivalents balance decreased from \$224,036,753 in 2015 to \$218,496,898 in 2016. However, there were increases in Trust Fund Account and Trading & Manufacturing Account bank balances by 11.6% and 37.4%, respectively. Overseas and Domestic cash also increased by 0.4% and 28.8%, respectively. The decrease in total cash was mainly attributed to the increase in unrepresented cheques by \$54,973,899 or 100.1% in 2016. Table 2.1 shows changes in net cash.



**Table 2.1 Cash at Bank Balance as at 31 July 2016**

Account	2016 Balances (\$)	2015 Balances (\$)	Variance (\$)	% Change
Overseas Agencies	47,411,540	47,221,823	189,717	0.4
Domestic Account	145,705,229	113,160,579	32,544,650	28.8
Trust Fund Account	119,788,149	107,297,355	12,490,794	11.6
Trading & Manufacturing Account (TMA)	15,462,371	11,253,488	4,208,883	37.4
Unpresented Cheques	(109,870,391)	(54,896,492)	(54,973,899)	100.1
<b>Net Cash</b>	<b>218,496,898</b>	<b>224,036,753</b>	<b>(5,539,855)</b>	<b>(2.5)</b>

A graphical presentation of the account balances for the past five years is provided in Figure 2.1.

**Figure 2.1 Cash and Cash Equivalent Balances: 2012 - 2016**

Cash balances in Domestic and Trust Fund Accounts make up majority of the government's cash holdings at year end.

## 2.1 Increased in Unpresented Cheques

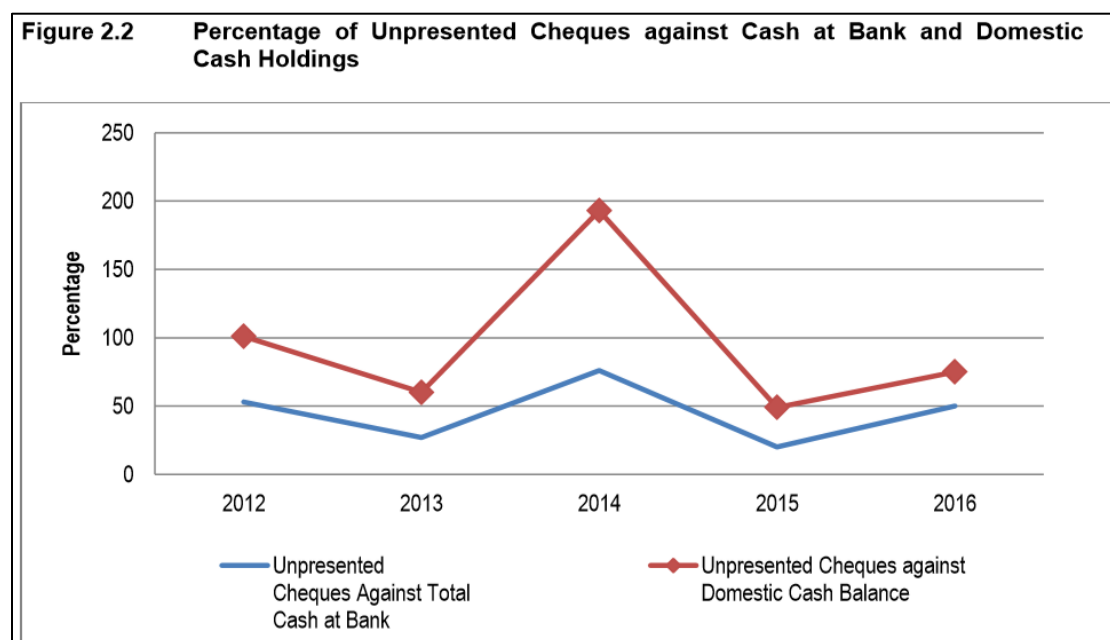
The Drawings Accounts balances (credits) for Ministries and Departments represent the total value of cheques that were issued but were not presented to banks as at 31 July 2016.

Review of the unpresented cheques balances over the past five years provided in Table 2.2 and Figure 2.2 indicate that it accounted for a significant portion of the domestic cash holdings of Government as at 31/7/16.

**Table 2.2 Unpresented Cheques**

Year	Unpresented Cheques (\$)	Cash at Bank (\$)	% of Unpresented Cheques Against Total Cash at Bank	Domestic Cash Holding (\$)	% of Unpresented Cheques against Domestic Cash Holdings
2012	107,360,277	203,957,283	53	106,660,817*	101
2013	75,572,051	282,316,760	27	126,382,089*	60
2014	137,976,858	180,529,168	76	71,312,510	193
2015	54,896,492	278,933,246	20	113,160,579	49
2016	109,870,391	218,496,898	50	145,705,229	75

\* Includes the cash balance of Trust Fund Account



The unpresented cheque balance increased by \$54,973,899 or 100% in 2016 compared to 2015. The unpresented cheque balance for Ministry of Infrastructure and Transport accounted for 36.5% of the total unpresented cheque balance as at 31/7/16 which is significant. Refer to Table 2.3 for details.



**Table 2.3 Ministries/Department with Significant Unpresented Cheque Balances**

<b>Ministry/Department</b>	<b>Amount (\$)</b>	<b>% of Total</b>
%Infrastructure and Transport	40,068,677	36.4
Energy	17,896,772	16.3
Education	13,400,106	12.2
Industry, Trade & Tourism	7,037,461	6.4
Treasury - CAT	6,260,593	5.7
Ministry of Women	4,736,033	4.3
Fiji Military Forces	2,921,253	2.7
Transport	2,909,004	2.6
Ministry of Sugar	2,641,683	2.4
Ministry of Agriculture	1,829,999	1.7

The large unpresented cheques balances indicated that spending for some Ministries and Departments are concentrated towards the end of the financial period which affects the cash flows for the beginning of the following year.

The significant amount listed in the table above are payments such as FNPF and grants that were payable on the last day of 2016 financial year.

### **Recommendations**

#### **Ministries and Departments should:**

- Be encouraged to properly plan their expenditures in order to avoid the accumulation of unpresented cheques at year end; and monitor end of year purchases to ensure that bulk spending at year end is avoided.
- Explanations and justification for large spending should be obtained from Accounting Heads.
- Ministry of Economy should also use cash flow forecasting as a tool for monitoring the spending of Ministries and Departments during the year.

### **Ministry's comments**

With the change of the fiscal year, we had to reconfigure the FMIS and this included its total shutdown. All ministries and departments were then required to write manual cheques. Where EFT would have significantly reduced the high UP list, the cheques took more than three days to clear, thus the slippage to the next financial year. With the FMIS now configured to the new fiscal year, we anticipate a lesser UP listing.

In addition, cash flow management is a core function of the Ministry and daily authorization of payments in excess of the daily limit for payments by Ministry/department is given by the Ministry of Economy. Cash collections are also monitored on the daily basis.

## **2.2 Anomalies in Drawings and Clearing Account**

The Drawings Accounts balances (credits) for Ministries and Departments represent the total value of cheques that were issued but were not presented to banks as at 31 July 2016. All Bank Lodgment Clearance (BLC) Accounts must be reduced to zero balance.<sup>10</sup> All Consolidated Fund transactions should be cleared and adjust all misallocations to the Inter-departmental Clearance Accounts.<sup>11</sup>

The following anomalies were noted from audit review of Drawings and Clearing Accounts as at 31 July 2016:

- Drawings Account reconciliation was not signed and reviewed by a Senior Accounts Officer for Ministry of Local Government and Department of Housing which had general ledger balances of \$1,185,832 and \$8,875, respectively;  
[This issue has been rectified.](#)
- Bank Lodgment Clearance and Inter-Departmental Clearance accounts totaling \$11,315 were yet to be cleared;  
[All of the outstanding accounts mentioned has been cleared/corrected in 2017 financial year as evidenced in \*\*Appendix 2.1\*\*.](#)  
[The table below provides the breakdown of the \\$11,315:](#)

<b>Account</b>	<b>Amount</b>
IDC 1-02301-02999-536101	\$500.00
BLC 1-30101-30999-538101	\$(11,975.33)
BLC 1-07101-07101-538101	\$160.00
<b>Total</b>	<b>\$11,315.33</b>

- Drawings Accounts totaling \$4,603 were dormant from the previous year; and  
[Issue has been rectified. All Drawings dormant accounts have been adjusted and closed as evidenced in the screenshots attached as \*\*Appendix 2.2\*\*](#)
- Debit balances existed in the Drawings and clearing accounts totaling \$2,138. The effect of this is the understatement of general ledger balance as at 31/07/16 by the same amount.

[Upon review of the FMIS GL balances as at 31/07/16, it is noted that all the drawings accounts matched with the UP listing \(reconciliation submitted by the Ministries\) hence Office of the Auditor-General is requested to clarify as to which Drawings and clearing accounts they are referring too.](#)



The audit findings indicate the lack of supervision and monitoring by the senior officers in the respective Ministries and Departments.

### **Recommendations**

- Ministries and Departments should ensure that:
- the clearing accounts are cleared at the end of the financial year; and
- the dormant accounts are investigated and necessary action taken to clear the carried forward balances from previous years.
- Ministry of Economy should closely monitor the month-end Drawings Account reconciliations submitted by Ministries and Departments and provide regular feedback. Errors and omissions noted should be addressed in subsequent reconciliations.

### **Ministry's Comments**

*Recommendations are noted. The Ministry has cleared the existing dormant accounts in 2017 financial year. The Ministry of Economy will be closely monitoring the monthly drawings account reconciliations.*

Ministry of Economy is now keeping a close tab on the reconciliation submission. MoE has setup a Monitoring & Evaluation team dedicated in reviewing whole of government reconciliations. As part of the Ministry's initiative, a checklist has been developed for desk officers to review the reconciliations that are submitted by respective ministries/department. Further, the team conducts reconciliation training twice a year and also on a one-to-one basis depending on the needs of reconciliation officers.

### **2.3 Anomalies in Cash at Bank Balance**

All bank accounts shall be reconciled monthly. The bank reconciliation shall list the outstanding cheques and other reconciling items and be signed and dated by the responsible officer. The following anomalies were noted from audit review of the domestic and overseas cash balances:

- The Ministry of Foreign Affairs Remittance Between Chest reconciliation had a balance of \$1,801,081 while the general ledger had nil balance as at 31 July 2016. The variance was due to the differences in closing and opening balances;  
This issue has been rectified as depicted in the screenshot below (nil balance):

**Account Hierarchy**

Account ID: 1-08101-08101-525202

Period From: 0 To: 7

Fiscal Set 1: A 2016 FJD Source

Fiscal Set 2:

**List of Accounts**

Account ID	Org	Type	Status	Description	SLC
10810108101525202	0000	1	A	RBC FOREIGN MISSION	0.00

- The Fiji Consulate General Sydney was transferred from the Ministry of Foreign Affairs to the Ministry of Industry, Trade & Tourism in April 2016. However, as at 31 July 2016, a balance of \$919,009 was still appearing under the Ministry of Foreign Affairs in the general ledger. This issue has not been resolved as balance is still appearing in MOFAs GL (screenshot below)

**JOURNAL INQUIRY BY ACCOUNT - TOTALS**

Acct: 1-08103-80102-510106 Type: 1 Year: 2018

Desc: FIJI CONSULATE GENERAL SYDNEY Per fr: 0 to: 14

Bbal: 919008.76 End: 919008.76 Net: .00

Per: Debits: Credits: Net: V: Dsply: ALL:

As a way forward, the Ministry of Civil Service with MOE is working on a guideline / checklist for the change in Ministry / department.

- The Fiji Embassy in Beijing RMB cash account had a debit balance of \$1,513 in the general ledger, which was carried forward from 2015. However, the bank reconciliation reflected an overdrawn balance of \$133,832 as at 31 July 2016 for which satisfactory explanations were not provided;

These variances of GL and bank balances have been recurring for the past years. The Ministry has introduced a new format of GL Postings of Missions transactions to address the issue at current. Also a new initiative of introducing FMIS in the various Missions is a way forward to curb this recurring issue of variances between cash and GL system. This initiative may see to do away with cash account whereby Missions will be directly transacting into budget allocations via FMIS System. The initiative are currently work in progress.

- The Trading and Manufacturing Account (TMA) bank reconciliation was not prepared for Ministry of Agriculture. As such, audit was unable to substantiate the TMA cash balance of \$7,877;

This is a recurring issue. Ministry of Agriculture has provided the evidences to Office of the Auditor-General last year for verification.

- The Trust Fund bank reconciliation was not prepared for Department of Housing. As such, audit was unable to substantiate the trust fund cash balance of \$7,269;

This issue has been rectified in 2017 financial year hence the balance now zero (screenshot below).

Desc: CITY WIDE TRUST ACCOUNT Fiscal set: A Year:   
 Currency: FJD Curr type: S DR/CR Code:   
 View totals: N (Y or N): Net change: .00   
 Per/Yr: Journal: Amount: JOURNAL DESCRIPTION   
 12/2017 AUD015 7,269.30- ADJ CLOSE CITY WIDE ACCOUNT

- Ministry of Economy fixed term deposit had a variance of \$1,997 between the FMIS general ledger and bank confirmation. This led to understatement of domestic bank general ledger balance by the same amount; and

The variance was rectified through an audit adjustment during the audit period. Balances reconciled as per audit certificate from the bank and GL balance. Refer to **Appendix 2.3** for bank audit certificate.

#### Fixed Term Deposit (Evidence of Issue rectified – nil difference)

Audit certificate amount	\$3,559,669.66(\$2,500,000.00 + \$1,059,669.66)
FMIS amount (below)	\$3,559,669.66 (\$2,500,000.00 + &1,059,669.66)
Difference	Nil

Acct: 1-04104-04402-526302 Type: 1 Year: 2016   
 Desc: FIXED TERM DEPOSIT WESTPAC Per fr: 12 to: 12   
 Bbal: 1059669.66 End: 1059669.66 Net: .00   
 Per: Debits: Credits: Net: V: Dsply: ALL:

Screenshot below shows adjustment approved by OAG.

**J/E by Account Inquiry**

J/E by Account Inquiry - Header    **Journal Inquiry By Account - Detail**

Acct 1-04104-04402-526302    Type I    Status I

Desc FIXED TERM DEPOSIT WESTPAC    Fiscal set A    Year 2014

Currency FJD    Curr type S    DR/CR Code    More

View totals ☒ (Y or N)    Net change 1,059,669.66

Per/Yr	Journal	Amount	JOURNAL DESCRIPTION
12/2014	AUD15	1059,669.66	RECOGNITION OF TERM DEPOSIT WBC

- There was no foreign exchange gain or loss accounted for in the reconciliations and general ledger for overseas missions and crown agents London account. The audit findings indicate the lack of supervision and monitoring by accounting officers in the respective Ministries and Departments.  
The net gain of exchange rate of the period amounting to \$3,178.05 was not posted as the MoFA officer was anticipating to post at year end as that was the usual practice.

### **Recommendation**

**Ministry of Economy should ensure that Ministries and Departments strictly comply with section 32(6) of Finance Instructions 2010 which requires that all bank accounts must be reconciled on a monthly basis and errors or omissions are adjusted on a timely basis.**

### **Ministry's Comments**

Ministry of Local Government (\$7,269) had not submitted their trust reconciliation. We are also working with the above Ministries and Ministry of Foreign Affairs, with regards to their overseas mission accounts.

### **2.4 Impact of Error and Omission on Cash at Bank Balance**

The Cash at Bank balance of \$218,496,897 as at 31 July 2016 was misstated in view of the following errors and omissions.

**Table 2.4 Errors and Omissions in Statement of Cash at Bank**

<b>Errors and Omissions</b>	<b>Amount (\$)</b>
Variance in Drawings Account Ending Balance	114,341
EFT payments and stale cheques included in unpresented cheque listings	2,698,547
Variance between Domestic Bank Reconciliation and the FMIS General Ledger	(1,997)
Variance between TMA Bank Reconciliation and the FMIS General Ledger	1,433,777
Variance between Trust Bank Reconciliation and the FMIS General Ledger	(43,256)
Variance between Overseas Bank Reconciliation and the FMIS General Ledger	2,567,391
<b>Total Errors and Omissions</b>	<b>6,768,803</b>

The impact of the errors and omissions on cash at bank totaling \$6,768,803 or 3.1% of the total cash at bank balance in the 2016 accounts is substantial and reflects the existence of weak controls in cash management.



## 2.5 Prior Years Issues

The following anomalies were raised in the audit report for the year ended 31 December 2015. There was no evidence to indicate that corrective action was taken to resolve the issues as at 31 July 2016.

Issues	Recommendations	Management Proposed Action/Comments	Current Status	Response																																						
<b>Drawings Account Variance</b> Variance of \$297,294 exists between departments' drawings reconciliations and General ledger balance for some ministries and departments.	<ul style="list-style-type: none"><li>Ministry of Economy and the individual ministries and departments should investigate and rectify the total variance so that correct balances are reflected at year end.</li><li>Ministry of Economy should closely monitor month end drawings reconciliation and ensure that agencies appropriately address errors and discrepancies in their monthly reconciliations before next reconciliations are due.</li></ul>	<i>Issue on Drawings Account variance is noted. Some of the Ministries specially Fisheries and Forest were not able to regularize their charges due to lack of budgetary provisions for 2015, hence the variance in their Drawings account Reconciliations.</i> <table><tr><th>Ministry/Department</th><th>Variance (\$)</th></tr><tr><td>Lands and Mineral Resources</td><td>(1</td></tr><tr><td>MOIT - Energy</td><td>(7</td></tr><tr><td>MOIT - MET</td><td>(85,6</td></tr><tr><td>MOIT - W&amp;S</td><td>1,6</td></tr><tr><td>MOIT - GSS</td><td>(1,1</td></tr><tr><td>MOIT</td><td>(23,6</td></tr><tr><td>MOIT - Energy</td><td></td></tr><tr><td>Agriculture</td><td>(5</td></tr><tr><td>Labour &amp; Employment</td><td>5,4</td></tr><tr><td>Civil Service</td><td>(6,4</td></tr><tr><td>MOE - Treasury CG</td><td></td></tr><tr><td>MOE - Pensions</td><td>(8</td></tr><tr><td>MOE - BOS</td><td></td></tr><tr><td>MOE - Treasury main a/c WBC</td><td>(2</td></tr><tr><td>Industry, Trade &amp; Tourism</td><td>(</td></tr><tr><td>MOE - Customs</td><td></td></tr><tr><td>Justice</td><td>(2,1</td></tr><tr><td><b>Total</b></td><td><b>(114,3</b></td></tr></table>	Ministry/Department	Variance (\$)	Lands and Mineral Resources	(1	MOIT - Energy	(7	MOIT - MET	(85,6	MOIT - W&S	1,6	MOIT - GSS	(1,1	MOIT	(23,6	MOIT - Energy		Agriculture	(5	Labour & Employment	5,4	Civil Service	(6,4	MOE - Treasury CG		MOE - Pensions	(8	MOE - BOS		MOE - Treasury main a/c WBC	(2	Industry, Trade & Tourism	(	MOE - Customs		Justice	(2,1	<b>Total</b>	<b>(114,3</b>	Open. The variance of \$114,341 was noted between following Ministries and Departments drawings reconciliation and general ledger balance. Refer to Table below for details;	<p>The reasons behind these GL overstatement and understatement is:</p> <ol style="list-style-type: none"><li>1) Ministries are not posting as these are bank errors. Bank errors due to the bank sweeping it twice for a particular month. They will only adjust when the bank has credited the concerned Ministries/Departments bank statement.</li><li>2) Ministries and department do not clear as they are unsure of where to post the Dr and Cr of these adjustments.</li></ol> <p>Audit must consider that the new drawings format was being rolled out to ministries and departments (implementation stage).</p>
Ministry/Department	Variance (\$)																																									
Lands and Mineral Resources	(1																																									
MOIT - Energy	(7																																									
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MOIT - Energy																																										
Agriculture	(5																																									
Labour & Employment	5,4																																									
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MOE - Customs																																										
Justice	(2,1																																									
<b>Total</b>	<b>(114,3</b>																																									

Issues	Recommendations	Management Proposed Action/Comments	Current Status	Response																																				
<p>Included in the unrepresented cheques listings, are the stale cheques and electronic fund transfer payments totaling \$57, 322.</p> <p>The Ministries and Departments did not carry out the board of survey for the unrepresented cheques.</p>	<ul style="list-style-type: none"><li>Board of Survey of the unrepresented cheques should be carried out at the end of the year.</li></ul>	<p><i>Comments on nonperformance of BoS exercise on the various Agencies are noted. However, the Ministry of Economy will be reviewing the need to continue with the BoS exercise now that the payment process has been automated via the FMIS. The BoS exercise was aimed to monitor the issuance of cheques and to ensure that no manual cheques are issued after the closing date. With the FMIS in place, this is no longer a requirement as the system keeps proper periodic control of transactions that are being processed; payments done after the closing date will be processed accordingly under the new period budget</i></p>	<p>Open. The stale cheques and electronic fund transfer totaling \$2,698,549 was included in following Ministries and Departments unrepresented cheques listing.</p> <table><tr><th>Ministry/ Department</th><th>Total Unrepresented Cheques (\$)</th></tr><tr><td>Employment</td><td>206,037</td></tr><tr><td>Education</td><td>13,400,106</td></tr><tr><td>Justice</td><td>184,921</td></tr><tr><td>Health - HQ</td><td>1,026,042</td></tr><tr><td>Energy</td><td>17,896,772</td></tr><tr><td>DPP</td><td>5,419</td></tr><tr><td>iTaukei Affairs</td><td>61,977</td></tr><tr><td>Civil Service</td><td>13,217</td></tr><tr><td>Health West</td><td>172,317</td></tr><tr><td>Lands</td><td>448,880</td></tr><tr><td>Foreign Affairs</td><td>33,079</td></tr><tr><td>MOE - Treasury CG</td><td>1,488,516</td></tr><tr><td>Fisheries and Forest</td><td>244,799</td></tr><tr><td>Rural and Maritime - HQ</td><td>1,116,493</td></tr><tr><td>Rural and Maritime - Central</td><td>308,410</td></tr><tr><td>Rural and Maritime - Eastern</td><td>265,643</td></tr><tr><td>Total</td><td>36,872,628</td></tr></table>	Ministry/ Department	Total Unrepresented Cheques (\$)	Employment	206,037	Education	13,400,106	Justice	184,921	Health - HQ	1,026,042	Energy	17,896,772	DPP	5,419	iTaukei Affairs	61,977	Civil Service	13,217	Health West	172,317	Lands	448,880	Foreign Affairs	33,079	MOE - Treasury CG	1,488,516	Fisheries and Forest	244,799	Rural and Maritime - HQ	1,116,493	Rural and Maritime - Central	308,410	Rural and Maritime - Eastern	265,643	Total	36,872,628	<p><b>The Ministry of Economy issues the Finance Circular for the closing of accounts and yet these issues remain at year end. We have planned to have a training to highlight these key aspects on the closure of accounts for this year.</b></p> <p>Ministries and Departments were still trying to understand the new Recon format and still needed to learn how to treat the stale chq and the eft if it present in the up list. To date these ministries and departments are reminded to follow up with vendors that have not cashed their Cheques. Clearance of cheques process</p> <p>1) Ministries and departments to liaise with the bank for stop payment. 2) Payment is then voided in the AP. 3) Ministries confirm if this payment is to be reissued then a payment is prepared. 4) Should Ministries confirm that payment isn't to be reissued then funds are then put back into expenditure allocation where it was originated from. 5) Should the stale chq is for <b>prior financial year</b> it is then referred to MOE for clarification is funds are posted to equity.</p> <p>Now that the monitoring team is more comprehensive it is within their task to carry out Reconciliation training for most Balance sheet items to Ministries and departments to curb this issue. These are compliance issue and we have raised this in the AMH in year 2017 for Ministries to adhere to. We will further take this in training plan that will be developed at WOG level.</p>
Ministry/ Department	Total Unrepresented Cheques (\$)																																							
Employment	206,037																																							
Education	13,400,106																																							
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Issues	Recommendations	Management Proposed Action/Comments	Current Status	Response																																																																																																				
			<div>Open. The drawings board of survey was not conducted for following Ministries and Departments.</div> <table><tr><th>Allocation</th><th>Ministry/D</th></tr><tr><td>1-22101-22999-530301</td><td>Health - HQ</td></tr><tr><td>1-37101-37999-530301</td><td>Local Gover</td></tr><tr><td>1-23101-23999-530301</td><td>Department</td></tr><tr><td></td><td>Total</td></tr></table>	Allocation	Ministry/D	1-22101-22999-530301	Health - HQ	1-37101-37999-530301	Local Gover	1-23101-23999-530301	Department		Total																																																																																											
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Variances were noted between the overseas bank reconciliation and FMIS general ledger. The general ledger is overstated by a sum of \$1,619,790	The responsible Ministries and Departments should strictly comply with section 32(6) of Finance Instructions 2010 which requires that all bank accounts must be reconciled on a monthly basis.	Comments noted. FMIS is currently working with these Ministries in resolving anomalies in their various cash at bank accounts. Issue should be resolved for financial year ending Jan- Dec 2016.	<div>Open The general ledger is overstated by a sum of \$2,567,391. Refer to Appendix 2.1 for details.</div> <div>Appendix 2.1: Details of Variances for Oversea:</div> <table><tr><th>Allocation</th><th>Description</th><th>B</th><th>R</th></tr><tr><td>1-08103-80102-510106</td><td>FIJI CONSULATE GENERAL SYDNEY</td><td></td><td></td></tr><tr><td>1-08103-80101-510107</td><td>FIJI HIGH COMM. CANBERRA</td><td></td><td></td></tr><tr><td>1-08103-81001-510202</td><td>FIJI HIGH COMM. LONDON</td><td></td><td></td></tr><tr><td>1-08103-80501-510401</td><td>FIJI EMBASSY TOKYO DOM CASH</td><td></td><td></td></tr><tr><td>1-08103-80701-510502</td><td>FIJI HIGH COM WELLINGTON</td><td></td><td></td></tr><tr><td>1-08103-80201-510504</td><td>FIJI HIGH COMMISSION BEIJING</td><td></td><td></td></tr><tr><td>1-08103-80201-510506</td><td>BEIJING RMB AC</td><td></td><td></td></tr><tr><td>1-08103-80201-510507</td><td>BEIJING VISA AC</td><td></td><td></td></tr><tr><td>1-08103-80301-510601</td><td>FIJI MISSION BRUSSELS</td><td></td><td></td></tr><tr><td>1-08103-81101-510801</td><td>FIJI HIGH COMMISSION UN</td><td></td><td></td></tr><tr><td>1-08103-81102-510802</td><td>WASHINGTON</td><td></td><td></td></tr><tr><td>1-08103-80301-510901</td><td>ADIS ABABA CASH AC</td><td></td><td></td></tr><tr><td>1-08103-80405-510901</td><td>ABUDHABI MISSION -ACCOUNT</td><td></td><td></td></tr><tr><td>1-08103-80406-510901</td><td>FIJI EMBASY KOREA</td><td></td><td></td></tr><tr><td>1-08103-80601-510901</td><td>BANK IN KUALA LUMPUR</td><td></td><td></td></tr><tr><td>1-08103-80801-510902</td><td>CLOSING BALANCE FOR PNG</td><td></td><td></td></tr><tr><td>1-08103-80401-510903</td><td>FHC NEW DELHI</td><td></td><td></td></tr><tr><td>1-08103-80402-510905</td><td>FIJI EMBASY INDONESIA</td><td></td><td></td></tr><tr><td>1-08103-80403-510905</td><td>FIJI EMBASY BRAZIL</td><td></td><td></td></tr><tr><td>1-08103-80401-510908</td><td>JAKARTA RUPIAH ACCOUNT</td><td></td><td></td></tr><tr><td>1-08103-80401-510909</td><td>INDIA IND RUPEE AC</td><td></td><td></td></tr><tr><td>1-08103-80401-510910</td><td>INDIA RENTAL AC</td><td></td><td></td></tr><tr><td>1-04102-04202-510201</td><td>CROWN AGENTS LONDON</td><td></td><td></td></tr><tr><td>1-00000-00000-510000</td><td>Total Overseas Bank Balances</td><td></td><td></td></tr></table>	Allocation	Description	B	R	1-08103-80102-510106	FIJI CONSULATE GENERAL SYDNEY			1-08103-80101-510107	FIJI HIGH COMM. CANBERRA			1-08103-81001-510202	FIJI HIGH COMM. LONDON			1-08103-80501-510401	FIJI EMBASSY TOKYO DOM CASH			1-08103-80701-510502	FIJI HIGH COM WELLINGTON			1-08103-80201-510504	FIJI HIGH COMMISSION BEIJING			1-08103-80201-510506	BEIJING RMB AC			1-08103-80201-510507	BEIJING VISA AC			1-08103-80301-510601	FIJI MISSION BRUSSELS			1-08103-81101-510801	FIJI HIGH COMMISSION UN			1-08103-81102-510802	WASHINGTON			1-08103-80301-510901	ADIS ABABA CASH AC			1-08103-80405-510901	ABUDHABI MISSION -ACCOUNT			1-08103-80406-510901	FIJI EMBASY KOREA			1-08103-80601-510901	BANK IN KUALA LUMPUR			1-08103-80801-510902	CLOSING BALANCE FOR PNG			1-08103-80401-510903	FHC NEW DELHI			1-08103-80402-510905	FIJI EMBASY INDONESIA			1-08103-80403-510905	FIJI EMBASY BRAZIL			1-08103-80401-510908	JAKARTA RUPIAH ACCOUNT			1-08103-80401-510909	INDIA IND RUPEE AC			1-08103-80401-510910	INDIA RENTAL AC			1-04102-04202-510201	CROWN AGENTS LONDON			1-00000-00000-510000	Total Overseas Bank Balances			<div><ul style="list-style-type: none"><li>The Ministry is currently undertaking new measures in the Missions acquittal postings as well as format of Mission's Cash Account [SAG51] reconciliations whereby transactions are individually reflected in appropriate accounts and gain and loss are accounted monthly rather than at the end of the financial year.</li><li>Ongoing discussion with Ministry of Economy and ITC on extending of the Financial Management Information System (FMIS) into the Mission – as a way forward to effectively address these variances</li></ul></div> <div>Further, MOE will discuss with MOFA for the audit of the mission accounts.</div>
Allocation	Description	B	R																																																																																																					
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Issues	Recommendations	Management Proposed Action/Comments	Current Status	Response																						
A sum of \$600,331 in the scholarship recovery bank account was still reflected in the Ministry of iTaukei affairs general ledger as at 31/12/15 despite the transfer of the administration of scholarships to the TSLB in 2014.			Open. The balance as at 31/7/16 was \$116,158.	<ul style="list-style-type: none"><li>In 2016, this bank account was transferred to the Ministry of Economy as a Consolidated Fund Account.</li><li>While the bank account was transferred to the Ministry of Economy, all records pertaining to this loan scheme were transferred by FAB to the TSLB</li><li>FRCS is now responsible for the recovery of these loans. 2017-2018 National Budget Address pt. 102 states FRCS will now directly collect tertiary education loan debt with a simpler, more transparent and more efficient process.</li><li>JV posting for transfers made is attached as <b>Appendix 2.4</b></li></ul>																						
Variances totaling \$1,627,016 were noted between the TMA Bank Reconciliation and FMIS general ledger		<table><thead><tr><th>Ministry/Department</th><th>Variance</th></tr></thead><tbody><tr><td>Fiji Correction Services</td><td></td></tr><tr><td>Infrastructure and Transport</td><td></td></tr><tr><td>Infrastructure and Transport</td><td></td></tr><tr><td>Health</td><td></td></tr><tr><td>Agriculture (4-30351-30999-540201)</td><td></td></tr><tr><td>Public Enterprise</td><td></td></tr><tr><td>Ministry of Economy</td><td></td></tr><tr><td>Fisheries and Forests</td><td></td></tr><tr><td>Fiji Military Forces</td><td></td></tr><tr><td>Total</td><td>1,627,016</td></tr></tbody></table>	Ministry/Department	Variance	Fiji Correction Services		Infrastructure and Transport		Infrastructure and Transport		Health		Agriculture (4-30351-30999-540201)		Public Enterprise		Ministry of Economy		Fisheries and Forests		Fiji Military Forces		Total	1,627,016	Open. The variance totaling \$1,433,777 was noted between the TMA Bank Reconciliations and General Ledger. Refer to Table below for details.	Most of the variances is due to unposted receipts and payments. Refer to <b>Appendix 2.5</b> for detailed response.
Ministry/Department	Variance																									
Fiji Correction Services																										
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Ministry of Economy																										
Fisheries and Forests																										
Fiji Military Forces																										
Total	1,627,016																									
Variances totaling \$1,351,354 were noted between the Trust Bank Reconciliation and FMIS			Open. The variance totaling \$43,256 was noted between the Trust Bank Reconciliations and	The variances arise after reconciling the Bank Statements and the General Ledger, as per Circular 2, 2013. After matching the two source documents, whatever miss matches should be verified and																						

Issues	<u>Recommendations</u>	<u>Management Proposed Action/Comments</u>	<u>Current Status</u>	<u>Response</u>								
general ledger.			General Ledger. Refer to Table below for details. <table><tr><th>Ministry/Department</th><th>Variance</th></tr><tr><td>Judiciary</td><td></td></tr><tr><td>Ministry of Local Government</td><td></td></tr><tr><td>Total</td><td></td></tr></table>	Ministry/Department	Variance	Judiciary		Ministry of Local Government		Total		<p>rectified mainly through journalizing to the General Ledger.</p> <p>When these outstanding items are not journalized, it gives rise to variances as highlighted by the auditors.</p> <p>Most Journals are passed at latter months.</p> <p><b>MOE is in discussion on the process of month end to address this issue within the month.</b></p>
Ministry/Department	Variance											
Judiciary												
Ministry of Local Government												
Total												
Two Trust cash accounts with a total balance of \$1,027,504 were not recorded in the FMIS general ledger.			Open. One trust account was not recorded in the FMIS Ledger. Refer to table below for details. <table><tr><th>Ministry/Department</th><th>Variance</th></tr><tr><td>RFMF – Engineers Project Account</td><td></td></tr></table>	Ministry/Department	Variance	RFMF – Engineers Project Account		<p>The project account was mainly for capital works received from respective Ministry/ department. The accounts have been reconciled and have now been recorded on the FMIS from 2017. The trust account is maintained under FMA 2004 and FI 2010 with a trust charter developed.</p>				
Ministry/Department	Variance											
RFMF – Engineers Project Account												



## **Recommendation**

**The Ministry should ensure that corrective actions are taken to resolve recurring issues.**

## **Ministry's Comments**

*While the onus is on each accounting head to ensure correctness and compliance to regulations, it is noted that this is not always the case. In spite of this, the Ministry of Economy continues to assist when requested in terms of reconciliation preparation and training.*

The Ministry of Economy is concerned with recurring issues over the years as these affect the Whole of Government Financial Statements with some issues that date 15 years or so in time. These are basic issues that the Ministry of Economy addresses in every Accounting Heads Meeting for Accounting Heads to be vigilant on and to rectify on.

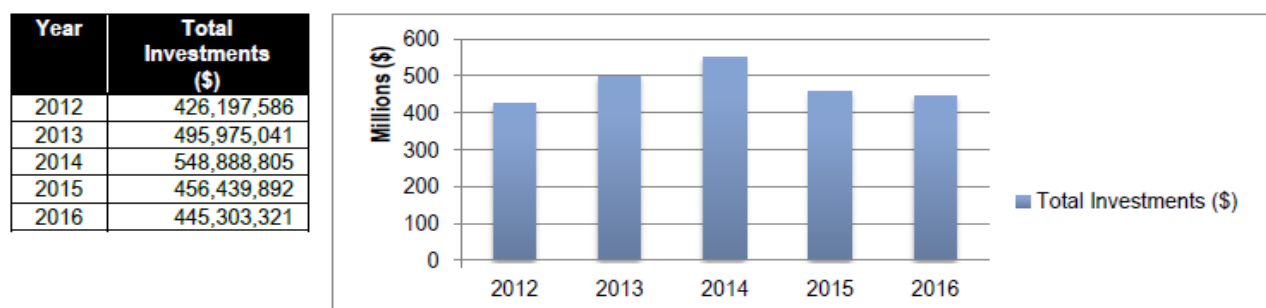
While the Ministry would like to resolve all issues, some issues need practical recommendations and solutions to have these resolved, especially, where the accounts have a backlog of reconciliations. MoE has designed a new reconciliation template and has improved monitoring and analysis in order to eliminate or reduce the repeated issues that have been highlighted.

The Ministry has worked closely with ministries and departments in their capacity building to improve reconciliations and have signed a handing-over statement which now gives the responsibilities to the respective department to take ownership of their own reconciliations. MoE will continue in its **over-sight role** to assist Ministry/departments in resolving repeated issues, however, emphasize that it is the responsibility of the respective Permanent Secretaries to resolve the audit findings raised.

### 3.0 Investments

Section 55 (1) (b) of the Financial Management Act 2004 empowers the Minister to invest public money and other money within the meaning of the Act in securities issued by a statutory authority. Government's investments in 2016 totaled \$445,303,321 comprising of shares held in 25 entities; a decrease of \$11,136,571 or 2% compared to 2015. The investments of the Government for the last five years are shown in Table 3.1 and Figure 3.1 below.

**Table 3.1 and Figure 3.1: Total Government Investments: 2012 – 2016**

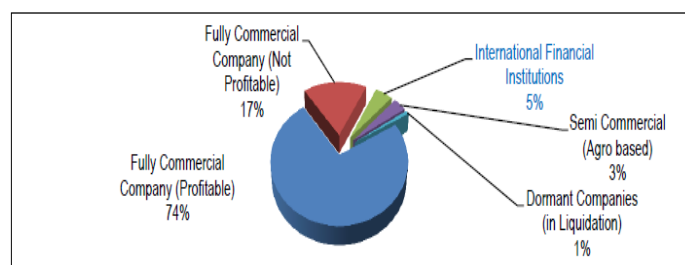


The decrease in government investments in 2016 is attributed to the reduction in the fair value<sup>14</sup> of governments' investment in Amalgamated Telecom Holdings (ATH) and the adjustment to the value of shares held in the International Bank for Reconstruction and Development to correctly reflect the current value of the shares in the Statement of Assets and Liabilities.

#### 3.1 Composition of Government Investments

The composition of Government Investments for 2016 is shown in the Figure 3.2 below:

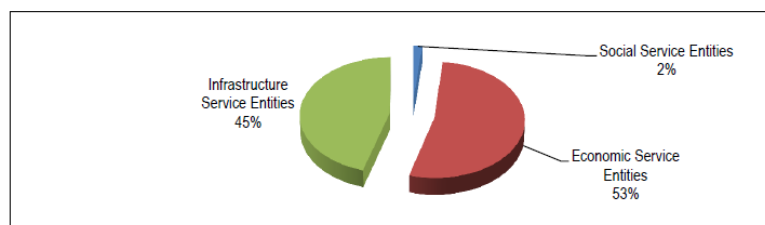
**Figure 3.2: Composition of Government Investment**



The major component of Government Investments as at 31 July 2016 consisted of profitable fully commercial companies amounting to \$327,786,256 or 74% of total investments. Fully commercial companies that were not profitable accounted for \$76,213,213 or 17%; international financial institutions accounted for \$21,007,309 or 5%; while semi-commercial (agro-based) companies accounted for \$15,814,933 or 3%. The remaining 1% or \$4,481,610 of government investments was for companies in liquidation. Governments investments in the Economic Services sector entities comprises majority of government

investments totaling \$235,366,475 or 53%. Investments in the Infrastructure sector entities make up 45% or \$202,556,386 whilst the remaining 1% or \$7,380,460 comprises of governments investments in Social Services sector entities. Refer to Figure 3.3 below for the composition of government investments by sector.

Figure 3.3: Composition of Investment by Sector

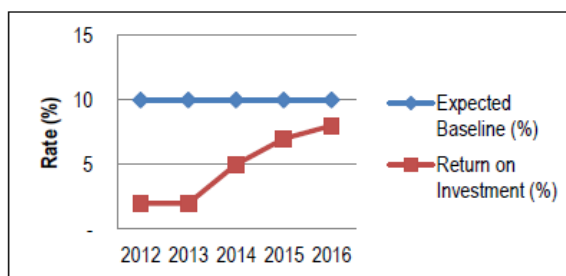


### 3.2 Return on Investments

Return on investment is a performance measure used to evaluate the efficiency of Government investments. An initial measure that corporatized entities are operating as successful businesses is 10% after tax return on shareholders' funds. Once the expectations of annual returns are established, the 10% baseline should be revised based on corporate plan targets.<sup>15</sup> Government's return on investment over the past five years from Government Commercial Companies and Commercial Statutory Authorities is highlighted in Table 3.2 and Figure 3.4 below.

Table 3.2 and Figure 3.4: Return on Investments 2012 – 2016

Year	Total Government Shareholding (\$)	Dividends On Investment (\$)	Return On Investments (%)
2012	426,197,586	10,524,101	2
2013	495,975,041	11,980,221	2
2014	548,888,805	24,816,121	5
2015	456,439,892	33,243,215	7
2016	445,303,321	36,230,778	8



Our analysis of governments return on investments indicates that the overall average rate of return on investment has steadily increased from 5% in 2014 to 7% in 2015 and on to 8% in 2016. Over the five years period, an overall average rate of return on investments of 4.8% has been recorded with the highest overall average of 8% attained in 2016. Collectively, the 10% baseline as required by the 2003 Corporate Governance Policy Framework has not been achieved.

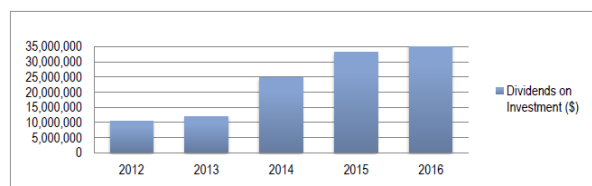
### 3.3 Analysis of Dividends and Investments

The forecast for dividend revenue in 2016 was \$32.86 million<sup>16</sup> while actual dividend revenue received for the year totaled \$36.23 million resulting in a favorable variance of

\$3.37 million or 10%. The movement of dividend received over the past five years is shown in Table 3.3

Refer to Figure 3.5 for the graphical analysis of dividends collected over the 5 year period:

**Figure 3.5: Total Dividends Remitted: 2012 – 2016**



Over the past 5 years, the number of entities paying dividends to Government averaged 9 compared to the average of 25 companies in which investments have been made. The low average number of entities remitting dividends to Government indicates the high number of non-performing portfolios and thus warrants stringent review of the investments, in order to receive maximum returns.

### 3.4 Dividends Remitted per Entity

An initial measure that corporatized entities are operating as successful businesses is 10% after tax return on shareholders' funds. Once the expectations of annual returns are established, the 10% baseline should be revised based on corporate plan targets.

All Government Commercial Companies and Commercial Statutory Authorities pay at least 50% of the net earnings to the Government as dividends in consultation with the Minister for Public Enterprises, Minister of Economy, and relevant Minister.

A total of \$36.2 million was received by government as dividends in 2016 from three government commercial companies and a 20 minority owned company. In addition to dividends received from the above companies, the government also received a sum of \$28.5 million as dividend from Reserve Bank of Fiji. For details of dividends remitted to government in the past five years refer to Table 3.4.

**Table 3.4: Details of Entities that remitted Dividends from 2012 – 2016**

Description	Value of Investments as at 31/07/2016 (\$)	Percentage of Dividend to total Investments value	Dividend for 2016 (\$)	Dividend for 2015 (\$)	Dividend for 2014 (\$)	Dividend for 2013 (\$)	Dividend for 2012 (\$)
Post Fiji Limited	5,600,000	---	---	1,249,574	---	---	---
UTOF (Management) Limited	50,000	---	---	---	119,526	113,574	74,276
Air Terminal Services	765,000	---	---	528,768	401,006	235,530	496,117
Yaqara Pastoral Company Ltd	1,191,846	120%	1,424,941	---	3,300,000	1,226,124	---
Fiji Ports Corporation Limited	29,993,490	9%	2,616,854	3,719,191	3,698,979	3,654,877	2,821,102
Airports (Fiji) Limited	92,300,180	33%	30,000,000	17,528,344	10,000,000	-	1,020,640
ATH Limited	**91,207,658	2%	2,188,983	10,217,338	7,296,610	6,566,949	4,377,966
FINTEL*	---	---	---	---	---	---	1,734,000
Pacific Forum Line(2006)*	---	---	---	---	---	183,167	---
<b>Dividends from Investments</b>	<b>221,108,174</b>	<b>16%</b>	<b>36,230,778</b>	<b>33,243,215</b>	<b>24,816,121</b>	<b>11,980,221</b>	<b>10,524,101</b>

\*government shares in these companies have been sold

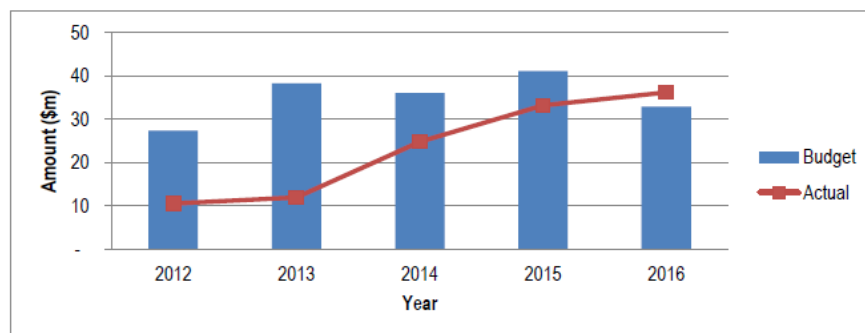
\*\*measured at fair value

The above table shows that Yaqara Pastoral Company Limited and Airports (Fiji) Limited have met the 10% required dividend remittance in accordance with Public Enterprises Corporate Governance Policy Framework. A graphical representation of budgeted and actual dividend revenue remitted by Government entities over the five-year period is outlined below in Table 3.5 and Figure 3.6.

**Table 3.5: Budgeted vs. Actual Dividend Revenue**

Descriptions	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Actual Dividends	36,230,778	33,243,215	24,816,121	11,980,221	10,524,101
Budgeted Dividends	32,860,165	41,290,000	36,121,700	38,281,000	27,356,500
% of Budgeted Dividends collected	110%	81%	69%	31%	38%

**Figure 3.6: Budgeted vs. Actual Dividend Revenue**



### 3.5 Inoperative Entities

Included in the “Equity Investments” (\$445,303,321) are entities that are in liquidation. Refer to Table 3.6 for details.

**Table 3.6: Details of Inoperative Entities**

Entity	Status	Action No.	Status Since	Amount (\$)
Air (Fiji) Limited	In Liquidation	Liq 88/09	2009	171,804
Fiji Daily Post Company Limited	In Liquidation	Liq 47/10	2010	951,620
National Trading Corporation Limited	Ceased Operation	-		3,358,186
<b>Total equity investments in inoperative entities</b>				<b>4,481,610</b>

The inoperative entities have been disclosed in the Notes pertaining to Investments over the years despite the substantial action on winding up taken by the Office of the Official Receiver. The above findings indicate that Equity Investments is overstated by \$4,481,610.

### Recommendations

#### The Ministry should:

- review investment in non-performing companies;
- adjust the inoperative entities from its investments; and
- carry out a review of the Corporate Governance Framework for state-owned entities which was last prepared in 2003.

### Ministry's Comments

The issue of the overstatement above has been rectified in the 2016-2017 financial year as evidence in the journal adjustment attached as **Appendix 3.1**.

Investments in companies which have been confirmed to be in liquidation by the Official Receiver are recognized at a fair value of zero. This recognition has been implemented in the 2016-2017 financial year through a policy on Financial Assets and Fund Accounting which was made effect in June 2017 for which is mentioned Section 83.

### **3.6 Misplaced Share Certificates (Audit Paragraph has been excluded in the supplementary report – Share certificates were available and IBRD and IFC do not provide share certificates)**

The Minister may invest public money and other money within the meaning of the Financial Management Act in securities issued by a statutory authority. A share certificate confirms of legal ownership of the number of shares held by shareholders in a particular entity. The audit noted that the share certificates for investments totaling \$14,684,473 were misplaced by the Ministry of Economy. These share certificates were also not available with the Ministry of Public Enterprise. Refer to Table 3.7 for details.

**Table 3.7: Details of Misplaced Share Certificates**

Entity	Total No. of Shares owned by Government	Shares without Share Certificates	Total Value of Shares without Share Certificates (\$)
Rewa Rice Limited	753,112	2	4
Airports Fiji Limited	92,300,180	5,225,136	5,225,136
Unit Trust of Fiji (Management) Limited	50,000	25,000	25,000
International Bank for Reconstruction and Development	987	876	8,760,000
International Finance Corporation	287	159	330,493
Food Processor Fiji Limited	687,680	343,840	343,840
<b>Total</b>			<b>14,684,473</b>

During the audit, confirmations were sought from entities in which government had investments to verify control or rights over government's shares. Details are reflected in Table 3.8.

**Table 3.8: Status of Confirmation for Shareholding of Government**

No.	Names of Entities that did not provide confirmations	Amount (\$m)	No.	Names of Entities that provided confirmations	Amount (\$m)
1.	Post Fiji Limited	5.60	1.	Amalgamated Telecom Holdings Limited	80.30
2.	Unit Trust of Fiji (Trustee) Ltd	0.80	2.	Airports (Fiji) Limited	92.30
3.	Unit Trust of Fiji (Management) Ltd	0.05	3.	Fiji Broadcasting Corporation Ltd	---
4.	Fiji Airways	13.30	4.	Fiji Ports Corporation Limited	30.00
5.	Viti Corps Company Ltd	6.00	5.	Food Processors Fiji Limited	0.70
6.	Yaqara Pastoral Company Ltd	1.20	6.	Fiji Hardwood Corporation	90.00
7.	Copra Millers Fiji Ltd	6.40	7.	Fiji Pine Ltd	61.00
8.	Yaqara Group Ltd	0.09	8.	Asian Development Bank	10.50
9.	Daily Post	0.90	9.	Fiji Rice Limited	1.50
10.	Air Fiji Ltd	0.20	10.	Pacific Fishing Company Limited	14.70
11.	National Trading Corp Ltd	3.30	11.	International Finance Corporation	0.60
			12.	Air Terminal Services	0.80
			13.	Fiji Sugar Corporation Ltd	15.10
			14.	International Bank for Reconstruction Development	10.00
	<b>Total</b>	<b>37.84</b>			<b>407.50</b>

In the absence of share certificates, the verification of government's control or rights over the shares held cannot be confirmed. Moreover, the absence of independent confirmations for investments worth \$37.8 million or 8.5% of the total investment of \$445.34 million entails that investments cannot be assured to be fairly stated.

The above findings indicates poor maintenance of government investment records by both the Ministry of Economy and the Ministry of Public Enterprise.

### Recommendations

- **The Ministry of Economy through the Ministry of Public Enterprise should ensure that all investment records of government are properly maintained and kept in a secured location.**

- The respective Ministries should also liaise with the companies for share certificates to be provided as evidence of shareholding and investments made.

### **Ministry's Comments**

The recommendations are noted. This issue of misplaced share certificates has been resolved. Copies of share certificates are attached as **Appendix 3.2**.

### **3.7 Non Submission of Annual Reports and Audited Accounts**

Within 5 months after the end of the current financial year of a Government Commercial Company or Commercial Statutory Authority, its Board shall give to the Public Enterprise Minister, its relevant Minister and the Minister for Economy its annual report and the audited consolidated financial statements accompanied by the auditor's report. The audit noted that only 6 out of the 25 companies in which Government held investments submitted their 2016 audited financial statements. Refer Table 3.9 below for details.

**Table 3.9: Details of the Latest Audited Accounts of Entities**

Entities	Year of Latest Audited Accounts
Fiji Airways Limited	2015
Airports (Fiji) Limited	2016
Amalgamated Telecom Holdings Limited	2016
Fiji Hardwood Corporation	2008
Pacific Fishing Company Limited	2016
Post Fiji Limited	2015
Unit Trust of Fiji (Trustee) Limited	2016
Unit Trust of Fiji (Management) Limited	2016
Fiji Ports Corporation Limited	2013
Air Terminal Services	2015
Fiji Broadcasting Corporation Limited	2015
Fiji Pine Limited	2016
Fiji Sugar Corporation Limited	2015
Yaqara Group Limited	NA
Copra Millers of Fiji Limited	2015
Food Processor Fiji Limited	2008
Rewa Rice Limited	2015
Viti Corps Company Limited	2006
Yaqara Pastoral Company Limited	2014

The audited accounts of government commercial companies and commercial statutory authorities contain information that is necessary for an informed assessment of its operations and those of its subsidiaries, including a comparison of its performance with its statement of corporate intent.

As most entities did not submit their latest financial statements and annual reports, their performance cannot be monitored and the viability of their business operations cannot be assessed. Thus, it is not possible to assess their financial performance which could limit



Government from making essential and sound decisions in regards to the operations of these entities.

### **Recommendation**

**Ministry of Economy should work with the Ministry of Public Enterprise to ensure that Annual reports and annual financial statements are promptly submitted by state-owned entities.**

### **Ministry's Comments**

Ensuring compliance to the Public Enterprises Act in relation to reporting is under the ambit of Ministry of Public Enterprises (MPE). Entities audited reports are submitted directly by the respective Board to MPE. Ministry of Economy's monitoring role of state owned entities was re-assigned to Ministry of Public Enterprises in 2014 (page 27 of [the Legal Notice No. 6 dated](#) 7 February 2014 attached as **Appendix 3.3**). As a way forward, constant communication will be made with Ministry of Public Enterprises in following up with SOEs on timely submission of annual reports and audited accounts submission.

### **3.8 Investment records not updated (Recurring Issue)**

Recording involves keeping accurate records of what has happened, what is owned and what is owed. The investment records are maintained and amended by Ministry of Economy when share certificates are received and proper verifications are undertaken to confirm the increase or the reduction in shares numbers and value when sold. The Ministry of Economy records show a total share capital of \$2 with the Fiji Broadcasting Corporation

Limited, which is confirmed by its share certificates. The audit noted a variance of \$200,000 between the Ministry's record and the investment confirmation received from the Fiji Broadcasting Corporation Limited. Variance between the Ministry's records and the entities in which shares are held has been a recurring issue which denotes lack of follow up action and inadequate record keeping, leading to possible misstatement of investments.

### **Recommendation**

**The Ministry of Economy should liaise with the Fiji Broadcasting Corporation Ltd and update the records of government investments accordingly.**

### **Ministry's Comments**

Recommendation is noted. The Ministry of Economy has received the [share certificate for 200,000 shares from FBCL](#) and has updated its investment records in the 2016-2017 financial year. Share certificates and general ledger in the FMIS is attached as **Appendix 3.4**

## 4.0 Trust Fund Account

Section 25 of the Financial Management Act (2004) states that trust moneys should be accounted separately from the public monies and should be kept in a separate bank account. The Trust Fund Account consists of Main Trust Funds and Operating Trust Funds.

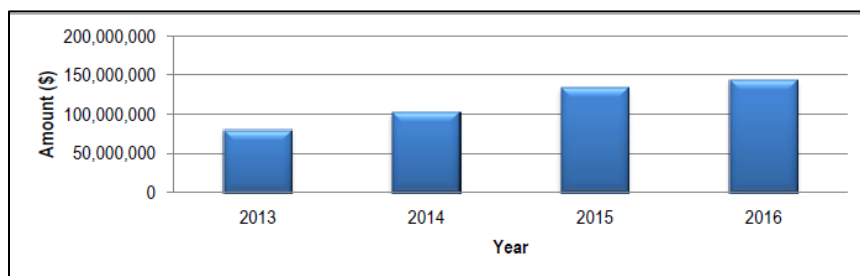
Main Trust refers to an obligation enforceable in equity which rests on a person (the trustee) as owner of some specific property (the trust property) to deal with that property for the benefit of another person (the beneficiary) or for the advancement of certain purposes. Major accounts in the Main Trust Fund include tender deposits, bonds, aid monies from overseas agencies, etc.

Operating Trust Fund Accounts facilitate transactions relating to the Ministries and Departments administrative role as an employer. These transactions include deductions from employees' salaries/wages with regards to contributions to the Fiji National Provident Fund, housing loan repayments, insurance premiums and other deductions for onward payment to the respective payees.

### **Figure 4.1 shows the trend in the Trust Fund Account balances over the last 4 years**

The Trust Fund Account had a balance of \$143,329,585 as at 31 July 2016, an increase of \$9,550,980 or 7% from 2015.

Figure 4.1 shows the trend in the Trust Fund Account balances over the last 4 years.



The closing Main Trust Account balance increased by \$12,799,060 or 11.9% compared to the balance of \$107, 789,102 in 2015 as a result of increase in revenue collected for the Mahogany Industry Council Fund, rural housing deposits, proceeds from sale of forfeited assets, retention monies withheld for the capital project and grant assistance.

Although there was a write-off of \$12,837,685 trust fund balances in 2015, the trust funds have significantly increased by \$9.6 million within the seven months.

The increase was due to the following trust accounts in 2016.

Ministry	Number of New Bank Accounts	Description	Purpose
Ministry of Economy	6	Winston Trust Fund Ministry of Economy	Established to receive financial donation in the wake of tropical cyclone Winston
	1	Govt Tuna Stablization	A certain percentage (4cents out of the 6cents) is charged to the fishing vessels as part of bunkers fees levy is put to the trust account for distribution to local fishing companies.
	1	Group Insurance Trust	The trust account is created for the insurance companies to deposit insurance monies which is then paid to beneficiary.
	1	ODA Performance & Tenancy Bond	This trust was set up for Donor funds.
Justice	1	Liquidation Trust	Trust is set for receipts and payments for companies under provisional liquidation and bankruptcy.
	1	Bankruptcy Trust	
Ministry of Health	1	Children Treatment Trust	Set up for Children that need assistance for overseas treatment. (Donor Funds)
	1	CWM Hospital Staff	
TOTAL	13		

All reconciliations have been submitted and updated, attached as **Appendix 4.1**

Reference is made to **Appendix 4.2** submission for the GL adjustment which was supported in 2016 through consultation with OAG.

#### 4.1 Weaknesses in Internal Controls – Trust Fund Account

The Accounting Head of an agency is responsible to the Permanent Secretary for the effective design and operation of internal controls across the agency.

The names and balances of each account must be listed and the reconciliation shall be signed by the responsible officer.<sup>27</sup> All Permanent Secretaries and Head of Department are required to submit monthly reconciliations to the Ministry of Economy by the 15th of each month.

Audit review of controls pertaining to trust fund accounts for Ministries/Department noted the following weaknesses:

- Reconciliations for the operating trust and main trust balances of \$1,502,735 were not prepared during the year. Refer to **Appendix 3.1.1**. Moreover, the reconciliations prepared by the Ministries/Departments were not submitted to the Ministry of Economy in timely manner;

Ministries/ departments	Anomalies in Trust Funds	Amount	Comments
Office of the Prime Minister	<u>Mahogany Industrial Council Trust Fund</u>	1,110,987	Reconciliation submitted attached as <b>Appendix 4.3</b>
Department of Housing	<u>Operating Trust</u>	347,420	To date reconciliations for 2017 & 2018 has been received. Details of balances attached and latest reconciliations attached as <b>Appendix 4.4</b>
	<u>City Wide Trust Account</u> □ The reconciliation for the City Wide Squatter Trust of \$7,269 was not prepared and submitted to the Ministry.		This Balance has been adjusted and is now zero.
Ministry of Local Government, Housing and Environment	Operating Trust Accounts	44,328	Reconciliations for 2017 & 2018 has been received. Details of balances and latest reconciliations attached as <b>Appendix 4.5</b>
		<b>1,502,735</b>	

- Listings of beneficiaries for the Trust Account of \$26,739,044 were not maintained. Refer to **Appendix 3.1.2**;

Ministries/ departments	Allocations	Description	FMIS GL Amount	Remarks- Inadequate Listings	Comments
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Ministries/ departments	Allocations	Description	FMIS GL Amount	Remarks- Inadequate Listings	Comments
Ministry of Employment, Productivity and Industrial Relations	9-07101-07003-895002	Workmen's Compensation	902,274	A total of \$7,957 cannot be substantiated as there was lack of records of its beneficiaries.	<ul style="list-style-type: none"> <li>Of the \$7,957 mentioned, \$3,028.75 is still owed for which listings of claimants is attached in <b>Appendix 4.6</b>. MoE will be reviewing the listing provided.</li> </ul>
	9-07101-07004-895003	Wages Dispute	85,254	A total of \$22,966 cannot be substantiated as there was lack of records of its beneficiaries	<ul style="list-style-type: none"> <li>Of the \$22,966 mentioned, \$13,495.31 still owed.</li> <li>Listing of claimants attached in <b>Appendix 4.6</b> and MOE will be reviewing the listing provided.</li> </ul>
Judicial	Various Allocations	Maintenance & Sundries	\$24,818,411	Reconciliation was still in progress and updated to May 1992 and as such total balances of \$24,818,411 could not be substantiated to its beneficiaries.	<ul style="list-style-type: none"> <li>As way forward, the department has increased its man power to update the beneficiary listing.</li> </ul>
Fiji Correction Services		Prisoners Trust Fund Account	440,360	Details of the balance of \$440,360 were not made available for audit verifications	<ul style="list-style-type: none"> <li>Correction Office is trying to identify the beneficiaries.</li> <li><b>Way forward</b> the Ministry has an endorsed SOP in place <b>Appendix 4.7</b></li> <li>Evidence: Endorsed SOP and email confirmation of identifying claimants dating back to 2013.</li> </ul>
Ministry of health and Medical Services	9-22101-22003-895055	Sahyadri Trust Account	66,147	No patient register or database to record all patients assisted since inception on 17/09/12. Thus there is no listing for the amount of \$66,147	<ul style="list-style-type: none"> <li>This issue has been rectified. This trust was set up for the Sahyadri specialist (beneficiary are the specialist and not the patient)</li> </ul>
Ministry of Agriculture	9-30101-30065-895012	Retention Funds _ LWRM	684,162	A variance of \$354,402 was noted between the list of companies – subsidiary records and FMIS general ledger. The subsidiary	<ul style="list-style-type: none"> <li>This issue has been rectified.</li> <li>Recipients' listings attached <b>Appendix 4.8</b></li> </ul>

Ministries/ departments	Allocations	Description	FMIS GL Amount	Remarks- Inadequate Listings	Comments
				records were not updated.	
Ministry of Justice	9-15101-15999-895061 9-15101-91991-895062	Liquidation Trust Bankruptcy Trust	617,249 219,630	The Ministry did not maintain a detailed listing of the Beneficiaries totalling \$836,879.	<ul style="list-style-type: none"> <li>• The department is not able to submit list of their 11,000 beneficiaries as they lost all their data when the system crashed in 2016 as there was no backup system.</li> <li>• However, the individual debtors current source document when there is a need for payment.</li> <li>• Way forward in the process of procuring a standalone system.</li> </ul>
Ministry of Fisheries and Forest	9-32301-76068-895005	Fisheries	191,922	The listings of the one third contributions for the trust balance of \$191,922 were not maintained by the Ministry	<ul style="list-style-type: none"> <li>• Ministry of Fisheries and Forest admit they could not obtain a correct trust listing as this has been carried forward figures from the Fisheries 1/3 Subsidy Scheme.</li> <li>• The Ministry is now maintaining a fortnightly reconciliation on this Trust fund account with the FMIS and also maintaining a register to record the movement of funds.</li> </ul>
<b>TOTAL</b>			28,125,409		

- Supporting documentation for the tender and security deposits, journal adjustments, balances in the trust reconciliations and cash for administration contributions for foreign mission totaling \$2,237,416 were not provided for audit verification. Refer to **Appendix 3.1.3**;

Ministries/ Departments	Anomalies in Trust Funds	Amount	Comments
Ministry of Agriculture	<u>LWRM Trust Account</u> □□Journal adjustments of \$318,494 were made to clear the Trust Account Bank Reconciliation in order for it to match with General Ledger. However, there were no supporting documents for these adjustments.	318,494	<ul style="list-style-type: none"> <li>Journal adjustments are posted at Ministry level. Hence, ministries are to maintain their records. To date Ministry of Economy has been receiving reconciliations for this account on monthly basis to ensure the Trust accounts are cleared and that no adjustments are to be made.</li> </ul>
Ministry of Lands and Mineral Resources	<u>Lands Trust Account</u> □□No Supporting documents for journal postings amounting to \$167,474.61 in the FMIS General Ledger.	167,475	<ul style="list-style-type: none"> <li>Journal adjustments are posted at Ministry level. Hence, ministries are to maintain their records. To date Ministry of Economy has been receiving reconciliations for this account on monthly basis to ensure the Trust accounts are cleared and that no adjustments are to be made.</li> </ul>
Ministry of Infrastructure and Transport	<u>Operating Trust Account</u> □□Details of Security Deposits totaling \$13,209 and Tender Deposits totaling \$951,202 were not provided to audit. Also, there was no evidence provided on actions taken to clear amounts.	964,411	Ministry of Economy is currently liaising with Ministry of Infrastructure and Transport to resolve this issue.
Ministry of Fisheries and Forest	<u>Department of Fisheries - 1/3 Subsidy Scheme Main Trust Fund</u> □□Retention payment of \$1,823 in Trust Statement of Receipts and Payments could not be substantiated.	1,823	<ul style="list-style-type: none"> <li>Journal adjustments are posted at Ministry level. Hence, ministries are to maintain their records. To date Ministry of Economy has been receiving reconciliations for this account on monthly basis to ensure the Trust accounts are cleared and that no adjustments are to be made.</li> </ul>

Ministries/ Departments	Anomalies in Trust Funds	Amount	Comments																											
Ministry of Foreign Affairs	<p>Operating Trust Account</p> <p>The Operating Trust account only had book entries and no actual cash was held by the Ministry for the following:</p> <table><tr><th>Allocation</th><th>Description</th><th>Amount (\$)</th></tr><tr><td>1-08103-80101-803101</td><td>Admin Contributions Foreign Mission</td><td>(230,444.54)</td></tr><tr><td>1-08103-80102-803101</td><td>Admin Contributions Foreign Mission</td><td>(330,157.00)</td></tr><tr><td>1-08103-80201-803101</td><td>Admin Contributions Foreign Mission</td><td>(40,260.33)</td></tr><tr><td>1-08103-80401-803101</td><td>Admin Contributions Foreign Mission</td><td>(3,281.14)</td></tr><tr><td>1-08103-80701-803101</td><td>Admin Contributions Foreign Mission</td><td>(131,018.25)</td></tr><tr><td>1-08103-81001-803101</td><td>Admin Contributions Foreign Mission</td><td>(23,887.58)</td></tr><tr><td>1-08103-81102-803101</td><td>Admin Contributions Foreign Mission</td><td>(9,180.91)</td></tr><tr><td>Total</td><td></td><td>(768,213.35)</td></tr></table>	Allocation	Description	Amount (\$)	1-08103-80101-803101	Admin Contributions Foreign Mission	(230,444.54)	1-08103-80102-803101	Admin Contributions Foreign Mission	(330,157.00)	1-08103-80201-803101	Admin Contributions Foreign Mission	(40,260.33)	1-08103-80401-803101	Admin Contributions Foreign Mission	(3,281.14)	1-08103-80701-803101	Admin Contributions Foreign Mission	(131,018.25)	1-08103-81001-803101	Admin Contributions Foreign Mission	(23,887.58)	1-08103-81102-803101	Admin Contributions Foreign Mission	(9,180.91)	Total		(768,213.35)	785,213	<ul style="list-style-type: none"><li><a href="#">Way forward</a> - discussions are underway to clear these balances with Ministry of Foreign Affairs.</li></ul>
Allocation	Description	Amount (\$)																												
1-08103-80101-803101	Admin Contributions Foreign Mission	(230,444.54)																												
1-08103-80102-803101	Admin Contributions Foreign Mission	(330,157.00)																												
1-08103-80201-803101	Admin Contributions Foreign Mission	(40,260.33)																												
1-08103-80401-803101	Admin Contributions Foreign Mission	(3,281.14)																												
1-08103-80701-803101	Admin Contributions Foreign Mission	(131,018.25)																												
1-08103-81001-803101	Admin Contributions Foreign Mission	(23,887.58)																												
1-08103-81102-803101	Admin Contributions Foreign Mission	(9,180.91)																												
Total		(768,213.35)																												
	Total	2,237,416																												



- Trust fund accounts amounting to \$1,882,154 are still reflected under the old appropriation head and has not been transferred to the new program. Refer to **Appendix 3.1.4** ;

Ministries/Department	Allocation	Description	2016 Balance	Comments
<b>Lands &amp; Minerals</b>	1-33101-33999-899988	Miscellaneous fund open item	11,803.00	This issue has been rectified.
<b>Local Govt, Housing, Environment</b>	1-37301-37999-895011	Environment Trust	128.00	This issue has not been resolved. MoE is currently in the process of clearing this issue.
<b>Infrastructure &amp; Transport</b>	1-40101-40999-861923	Uniform Deduction - Transport	251.00	This issues has not been resolved. Investigation is currently in progress.
	1-40601-91991-861920	501 PD Employees FNPF	154,365.00	This issue has not been resolved. MoE is currently in the process of undertaking equity adjustments.
	1-40601-84999-861106	390 PD Govt Water Rates Charges	759.00	
	1-40601-84999-861920	501 PD Employees FNPF	23,288.00	
	1-40601-84999-862102	JC Retention Money	1,681,904.00	
	1-40501-97991-861933	NUPW Credit union	20.00	
	1-40501-97991-861104	208 PD Rent H/A Unest	210.00	This issues has been resolved.
	1-40501-97991-861202	241 PD CMLA	2,276.00	
	1-40501-97991-861204	Payroll Deductions-LICI	133.00	
	1-40501-97991-861501	286 PD Fiji Public Service Ass	37.00	
	1-40501-97991-861899	440PD Fixed Rent		

Ministries/Department	Allocation	Description	2016 Balance	Comments
			97.00	
	1-40502-95212-861202	241 PD CMLA	50.00	
	1-40501-96991-861923	Payroll Deduction-Agriculture	374.00	
	1-40501-95991-861924	Payroll Deduction-Central finance	467.00	
	1-40501-96991-861933	NUPW Credit union	49.00	
	1-40501-96991-861104	208 PD Rent H/A Unest	365.00	
	1-40501-96991-861106	390 PD Govt Water Rates Charges	73.00	
	1-40501-96991-861202	241 PD CMLA	175.00	
	1-40501-96991-861204	244 PD-LICI	286.00	
	1-40501-96991-861525	316 PD Service Worker CU	530.00	
	1-40501-97991-861525	316 PD Service Worker CU	90.00	
	1-40501-96991-861532	YYY PD Public Employee Union	19.00	
	1-40501-96991-861537	Carpenters Finance Fiji Ltd	176.00	
	1-40501-96991-861606	346 PD Maintenance Lautoka	40.00	
	1-40501-96991-861911	385 PD Sports & Social	30.00	
	1-40501-96991-861920	501 PD Employees FNPF	4,098.00	
	1-40501-96991-861934	NUPW Welfare	61.00	
<b>TOTAL</b>				

Ministries/Department	Allocation	Description	2016 Balance	Comments
			1,882,154.00	

- A total of \$4,102,398 and \$12,837,685 was written off for dormant and unreconciled trust accounts in 2013 and 2015, respectively. However, as at 31 July 2016, there were still 413 dormant trust accounts amounting to \$5,198,313. Refer to **Appendix 3.1.5**; and

Audited comments are noted. MOE through FMIS is currently liaising with respective ministries in clearing dormant accounts. As attached it is noted that there has been no movements in these dormant accounts for 2016, 2017 and 2018. **Appendix 4.9**

- Other weaknesses in trust fund internal controls as detailed in **Appendix 3.1.6**.

Ministries/Department	Anomalies Accounts	Comments
Office of the Prime Minister	<u>Mahogany Industrial Council Trust fund</u> <ul style="list-style-type: none"> <li>• There is no policy on the usage of trust funds;               <ul style="list-style-type: none"> <li><input type="checkbox"/> No independent monitoring carried out on the operation and the billing process of the Fiji Hardwood Corporation Limited (FHCL) to Licensee;</li> <li><input type="checkbox"/> The rates used by FHCL to levy license fee Licensee is not gazetted or approved by the Mahogany Industrial Council.</li> <li><input type="checkbox"/> The fees collected are not categorized according to the purpose the fees were received in the Trust Statement of Receipts and Payments in the Agency Financial Statement.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Ministries are obliged under the Finance Manual 2004 and Financial Instructions 2010 to keep proper trust records of receipts and payments.</li> </ul>
Department of Immigration	<u>Main Trust Account</u> <ul style="list-style-type: none"> <li>• Untimely preparation of trust account reconciliations. Instance were noted where preparation of reconciliations were delayed by 7 months.</li> <li>• Reconciliations were not check for accuracy and completeness by the Senior Accounts Officer.</li> </ul>	<ul style="list-style-type: none"> <li>• Issue rectified – reconciliation was completed and endorsed by DOI.</li> </ul>

Ministries/Department	Anomalies Accounts	Comments																																								
Ministry of Employment, Productivity and Industrial Relations	<u>Main Trust Accounts</u> <ul style="list-style-type: none"><li>A variance of \$921 exists between bank reconciliation and cash book reconciliation for the combine trust accounts Workers Compensation Trust Account, Wages Dispute Trust Account and OHS Consultancy.</li></ul>	<ul style="list-style-type: none"><li>Issue has been resolved.</li></ul>																																								
Ministry of Justice and Fiji Correction Service	<u>Liquidity Trust and Bankruptcy Trust</u> <ul style="list-style-type: none"><li>Audit noted that in 2016 the Liquidity Trust &amp; Bankruptcy Trust totaling \$836,879 were being reflected in the FMIS general ledger for the first time. Previously, the ministry has been maintaining manual cash book, bank statements and cash at bank reconciliations only. However, audit noted that these main trust ledger balances were made up of just one bulk posting each into the two accounts without details of receipts and payments made during the period.</li><li>Also, there was no opening balance for the current period or carried forward balance over the years reflected in the FMIS Ledger.</li><li>Furthermore, the description of the general ledger for both bank accounts states “generated account” without actually differentiating between the bankruptcy or liquidity trust cash at bank ledger account.</li></ul> <u>Prisoners Cash Trust fund</u> <ul style="list-style-type: none"><li>Absent of policy guidelines for receipts and payments of money into the Trust Fund Account except for draft job placement policy.</li><li>The portion of the prisoners’ income which is to be transferred to government through the consolidated fund account cannot be ascertained by audit.</li></ul>	<p>This issue has been corrected.</p> <table><tr><td>12/2016</td><td>9-15101-15999-520401</td><td>617,248.75</td><td>LIQUIDATION POST</td></tr><tr><td>12/2016</td><td>9-15101-15999-895061</td><td>617,248.75-</td><td>LIQUIDATION POST</td></tr><tr><td>12/2016</td><td>9-15101-91991-520401</td><td>219,630.08</td><td>BANKRUPTCY POST</td></tr><tr><td>12/2016</td><td>9-15101-91991-895062</td><td>219,630.08-</td><td>BANKRUPTCY POST</td></tr></table> <ul style="list-style-type: none"><li>The account description have been amended to reflect the accounts.</li></ul> <table><tr><td>91510115999520401</td><td>0000</td><td>1</td><td>A</td><td>LIQUIDATION TRUST</td><td>617,</td></tr><tr><td>91510191991520401</td><td>0000</td><td>1</td><td>A</td><td>BANKRUPTCY TRUST</td><td>219,</td></tr><tr><td>91510115999895061</td><td>0000</td><td>2</td><td>A</td><td>LIQUIDATION TRUST</td><td>-617,</td></tr><tr><td>91510191991895062</td><td>0000</td><td>2</td><td>A</td><td>BANKRUPTCY TRUST</td><td>-219,</td></tr></table> <ul style="list-style-type: none"><li>Endorsed SOP is already in place. Reconciliation complete and sent to Ministry of Economy..</li></ul>	12/2016	9-15101-15999-520401	617,248.75	LIQUIDATION POST	12/2016	9-15101-15999-895061	617,248.75-	LIQUIDATION POST	12/2016	9-15101-91991-520401	219,630.08	BANKRUPTCY POST	12/2016	9-15101-91991-895062	219,630.08-	BANKRUPTCY POST	91510115999520401	0000	1	A	LIQUIDATION TRUST	617,	91510191991520401	0000	1	A	BANKRUPTCY TRUST	219,	91510115999895061	0000	2	A	LIQUIDATION TRUST	-617,	91510191991895062	0000	2	A	BANKRUPTCY TRUST	-219,
12/2016	9-15101-15999-520401	617,248.75	LIQUIDATION POST																																							
12/2016	9-15101-15999-895061	617,248.75-	LIQUIDATION POST																																							
12/2016	9-15101-91991-520401	219,630.08	BANKRUPTCY POST																																							
12/2016	9-15101-91991-895062	219,630.08-	BANKRUPTCY POST																																							
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91510191991520401	0000	1	A	BANKRUPTCY TRUST	219,																																					
91510115999895061	0000	2	A	LIQUIDATION TRUST	-617,																																					
91510191991895062	0000	2	A	BANKRUPTCY TRUST	-219,																																					
Ministry of Civil Service	<u>Operating Trust Account</u> <ul style="list-style-type: none"><li>The operating trust fund balance as at 31/07/16 was \$667,660.28. Out of these \$52,038.39 or 7.8% posting was made in 2016. The remaining of the balance (92.2%)</li></ul>	MOE has reviewed the adjustment and has advised the Ministry of Civil Service to submit the regularized journal. <b>Appendix 4.10.</b>																																								

Ministries/Department	Anomalies Accounts	Comments
	<p>was carried forward from 2015(former PSC) and was not regularized.</p> <ul style="list-style-type: none"> <li>□□ The Payroll Deduction PSC Bond Quarters balance as at 31/07/16 amounted to \$85,911.78. However, the bond amount was not transferred to TMA Liabilities account. The TMA account administration moved to the Ministry of Economy with effect from 01/01/16.</li> <li>□□ The Ministry's Operating Trust Fund account has 108 sub accounts and out of these 75 sub accounts are inactive. These accounts were inherited from the former PSC.</li> <li>□□ Monthly Operating Trust Reconciliations were not prepared on time as January to July reconciliations were prepared in the month of September.</li> </ul>	<ul style="list-style-type: none"> <li>• All reconciliation have been submitted up till 2018.</li> </ul>
Ministry of Rural and Maritime Development and National Disaster Management	<p><u>Main Trust Accounts</u></p> <ul style="list-style-type: none"> <li>• The monthly bank reconciliations for the main trust fund account held with Westpac Banking Corporation and Bank of South Pacific was not prepared in a timely manner.</li> </ul>	<p>This issue has been resolved. <b>Appendix 4.11</b></p>
Fiji Police Force	<p><u>Operating Trust</u></p> <ul style="list-style-type: none"> <li>• The operating trust fund account had a credit balance of \$2,365,702.07 as at 31/07/16. The ending balance comprised of significant previous year's un-cleared balances carried forward to 2016 as follows:</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Way Forward</b> - Fiji Police Task Force Team has been appointed to verify, reconcile, and clear these accumulative balances through passing JVs.</li> </ul>
Ministry of Health & Medical Services	<p><u>Operating Trust Funds</u></p> <ul style="list-style-type: none"> <li>• The audit review of the individual balances noted that the following operating trust account balances have been carried forward from the previous year without any or minimal movement noted during the year as follows:</li> </ul>	<p>A team with Ministry of Health has been assigned to verify this balance and adjust accordingly.</p>

Ministries/Department	Anomalies Accounts					Comments
	Allocation	Particulars	Balance as at 31/12/15 (\$)	Balance as at 31/07/16 (\$)	Increase / (Decrease (\$))	
	1-22101-22999-861106	390 PD Govt Water Rates Charge	33,891.68	33,925.68	34.0	
	1-22101-22999-861107	391 PD Gov Quarters Electricity	102,544.34	102,544.34	-	
	1-22101-22999-861309	388 PD PSC Scholarship Loan	70,239.37	71,559.67	1,320.3	
	1-22101-22999-863201	VAT on revenue	684,573.43	882,257.01	197,683.5	
	<ul style="list-style-type: none"> <li>The majority of the trust fund account balance of \$2,275,294 as at 31/07/16 was made up of the outstanding FNPf deductions, VAT on revenue and Government quarters electricity which have credit balances of \$940,251, \$882,257 and \$102,544 respectively which comprises 85% of the total balance.</li> </ul> <p><u>Retention Funds</u></p> <ul style="list-style-type: none"> <li>The audit noted that the Ministry did not maintain a Trust Fund bank account to deposit retention sums deducted from the progress payments made to the Contractors for capital works. Instead the Ministry retains the retention fund allocation within its budgetary allocation. On the lapse of authority the funds are returned to the Ministry of Economy and requested again in the following year's budget submission.</li> </ul>					<ul style="list-style-type: none"> <li>This issued is noted. MoE through our Policy unit will now look into formulating policy on retention money decisions.</li> </ul>

[illegible]

Ministries/Department	Anomalies Accounts	Comments
	<p>the consolidated bank account of government instead of the trust thus the excess bank balance of trust monies at the end of the year. This was corrected after 31 July 2016.</p> <ul style="list-style-type: none"> <li>• The Statement of Receipts and Payments for the Sahyadri Trust Fund Account had receipts and payments of \$1,055,106 and \$1,047,969 respectively. In contrast, the bank statement for the period 01/01/16 to 31/07/16 had total receipts of \$731,797 and the total payments of \$21.</li> <li>• No supplementary agreement was entered into by the Ministry and the Sahyadri Specialty Pacific Hospital Ltd on the approved fees and charges as required under the Section 5 of Joint Venture agreement.</li> <li>• As at the date of audit93 \$105,554 was owed by patients to government after having undergone surgery in 2016. It was noted no concerted effort was made by the Ministry to recover the outstanding amount from the concerned patient/relatives.</li> <li>• The Ministry does not maintain a patient register or centralized database to keep proper records of all patients that have undergone surgery since 17/09/12.</li> <li>• The Ministry did not maintain the proper cash book and bank reconciliation since its inception 17/09/12.</li> </ul> <p><u>Cardiology Services Trust Account</u></p> <ul style="list-style-type: none"> <li>• The total receipts of \$1,159,912 as per the Cardiology Services Trust Statement of Receipts and Payments include prior year's net receipts of \$865,767 which was not previously recorded in the Financial Management Information System (FMIS) general ledger.</li> <li>• The Ministry did not maintain a cashbook to record the details for receipts and payments for the period ended 01/01/16 to 31/07/16. The records on receipts and</li> </ul>	



Ministries/Department	Anomalies Accounts	Comments																		
	<p>payments were maintained in the excel format.</p> <ul style="list-style-type: none"><li>The monthly reconciliation of the cash at bank balance, general ledger and cash book for the Cardiology Services Trust Fund Account for all the seven months period ending 31 July 2016 was not carried out on a timely manner.</li></ul> <p><u>Fiji Children's Overseas Treatment Fund Trust Account</u></p> <ul style="list-style-type: none"><li>Government official local purchase orders were not issued for various procurements made, however orders were place through emails.</li><li>Three competitive quotations were not obtained.</li><li>Payments were made on the strength of quotations and invoices and delivery dockets were not attached to confirm that the quantity of items ordered and paid for have been delivered in full.</li></ul>																			
Ministry of Agriculture	<p><u>LWRM Trust Account</u></p> <ul style="list-style-type: none"><li>Retention monies deposited in the Trust bank account totaling \$930,621 were not receipted since July 2014.</li><li>Monthly Bank Reconciliations within 5 days after the end of each month and the reconciliation was not prepared in accordance with standard format documented in the Finance Manual.</li></ul>	<ul style="list-style-type: none"><li>Comment is noted. Finance Circular No2 2013 states that reconciliations for budget sector agencies are to be submitted to Ministry of Economy before the 15<sup>th</sup> of the following month. Also attached is the reconciliation 2016 July.</li></ul> <p><b>Appendix 4.13</b></p>																		
Ministry of Fisheries and Forests	<p><u>1/3 Subsidy Scheme Main Trust Fund</u></p> <ul style="list-style-type: none"><li>No Receipts and Payments disclosed in the Agency Financial Statement on Fisheries Main Trust Fund despite movement in trust cash and liability in general ledger of \$112,281 and \$113,585 respectively</li><li>A variance of \$113,993 was noted between Trust Cash audited 2015 balance and 2016 opening balance.</li></ul>	<p>Comments noted this issue has been resolved.</p> <div><p>Account ID: <input type="text" value="9-32000-00000-BS0000"/></p><p>Period From: <input type="text" value="0"/> To: <input type="text" value="14"/></p><p>Fiscal Set 1: <input type="text" value="A"/> <input type="text" value="2016"/> <input type="text" value="FJD"/> <input type="text" value="Source"/></p><p>Fiscal Set 2: <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/></p><p>List of Accounts</p><table><thead><tr><th>Account ID</th><th>Org</th><th>Type</th><th>Status</th><th>Description</th><th>SLC</th></tr></thead><tbody><tr><td>93230176068520301</td><td>0000</td><td>1</td><td>A</td><td>GENERATED ACCOUNT</td><td>191,922.44</td></tr><tr><td>93230176068895005</td><td>0000</td><td>2</td><td>A</td><td>FISHERIES</td><td>-191,922.44</td></tr></tbody></table></div>	Account ID	Org	Type	Status	Description	SLC	93230176068520301	0000	1	A	GENERATED ACCOUNT	191,922.44	93230176068895005	0000	2	A	FISHERIES	-191,922.44
Account ID	Org	Type	Status	Description	SLC															
93230176068520301	0000	1	A	GENERATED ACCOUNT	191,922.44															
93230176068895005	0000	2	A	FISHERIES	-191,922.44															

Ministries/Department	Anomalies Accounts	Comments
Ministry of Lands and Minerals Resources	<u>Land Trust Account</u> <ul style="list-style-type: none"> <li>Monthly Bank Reconciliations were not prepared within 5 days after the end of each month and the reconciliation was not prepared in accordance with standard format documented in the Finance Manual</li> </ul> <u>Mining and Non Mining Trust Account</u> <ul style="list-style-type: none"> <li>Stale Cheque of \$46,228.39 and Voided Cheques of \$34,692.15 in Un-presented Cheque Listing.</li> <li>Monthly Bank Reconciliations were not prepared within 5 days after the end of each month and the reconciliation was not prepared in accordance with standard format documented in the Finance Manual.</li> </ul>	<ul style="list-style-type: none"> <li>Comments are noted. These issues are rectified attached is the reconciliation status for Mining and Non Mining Trust Account. <b>Appendix 4.14</b></li> </ul>
Ministry of Sugar	<u>Operating Trust Funds</u> <ul style="list-style-type: none"> <li>Reconciliations not prepared monthly for Jan to May. Only 1 reconciliation was prepared from January-May, 2016.</li> <li>No reconciliation was provided for June to July 2016.</li> <li>Reconciliations not checked by Accounts Officer and not signed by Director Sugar.</li> </ul>	<ul style="list-style-type: none"> <li>Comments noted. Issues have been rectified. Endorsed Jan - July 2016 reconciliation attached in <b>Appendix 4.15</b></li> </ul>
Ministry of Local Government, Housing and Environment	<u>Trust Account – Environment</u> <ul style="list-style-type: none"> <li>Monthly Bank Reconciliations were not endorsed and verified by Senior Accounts Officer for its correctness.</li> </ul>	Comment noted. This has been corrected.

- Although substantial value of transactions were being processed through Trust Fund Accounts, Standard Operating Procedures were not prepared and used by a number of Ministries and Departments including Office of the Prime Minister, Fiji Corrections Service and Ministry of Health and Medical Services. Hence, inconsistencies were noted in the operation of the accounts.

Accounting Heads are responsible for developing Standard Operating Procedures within their Ministry to assist them in their daily operations. This has always been highlighted in Accounting Heads Meeting **Appendix 4.16**.

The above findings indicate the ineffective controls and lack of supervisory checks in the operation and administration of Trust Fund Accounts. Consequently, audit could not substantiate the accuracy and the completeness of the Trust Fund Accounts closing balance of \$143,329,585.

### **Recommendations**

**The Ministry of Economy should ensure that Ministries and Departments:**

- **prepare and submit the monthly trust reconciliations to the Ministry on a timely basis;**
- **strengthen the controls in the receipts and payment of trust monies;**
- **maintain supporting documents and provide them for audit verifications;**
- **perform monthly reconciliations between the Trust Liability Account in General Ledger (SLG89) and the manual records/listings of beneficiaries; and**
- **Prepare SoPs for operation of all Trust Fund Accounts.**
- **The Ministry of Economy should ensure that trust fund account balances are transferred to new Appropriation Heads when there are changes in Ministerial portfolios.**

### **Ministry's Comments**

The Ministry of Economy is also concerned with the outcome of the audit findings wherein some agencies are not adhering to basic requirements in the utilization and reporting of the stated true trust fund accounts. Where previously reconciliations received here at the ministry were recorded in our data base as being received after which we would check them, we are now verifying these upon receipt and if not in order it is returned immediately. Also to avoid numerous trips from the agencies to the MoE, we have also suggested that they send a soft copy for our verification and clearance before a proper reconciliation is sent.

As discussed in our overview, we intend to hold approvals for Ministries that do not show progressive improvement to their accounts and finances. We are in operations progressively requesting the status on audit issues related to the approvals being sought prior to providing approvals.

Further, we have identified that recording of accounting transactions is an issue and with our risk profiling, we will provide training accordingly.

## 4.2 Overdrawn Trust Accounts

Trust money is to be accounted separately from the public money and other money 29 and by convention should always have credit balances. Thus, the trust fund accounts should not at any time be overdrawn. Trust Fund Accounts for the following Ministries/Departments were overdrawn as at 31 July 2016.

The findings indicate the responsible officers in the respective Ministries and Departments are not carrying out their roles and responsibilities diligently.

**Table 4.1 Overdrawn Trust Fund**

<b>Ministries and Departments</b>	<b>2016 (\$)</b>
Housing	180
Corrections	10,261
Police	25,980
Agriculture	24,884
Economy	119,079
Health	8,712
Infrastructure & Transport	962,085
Local Govt. Housing, Environment	60,833
Public Enterprise	961
Sugar	2,132
DPP	84
RFMF	152,411
	<b>1,367,602</b>

The findings indicate the responsible officers in the respective Ministries and Departments are not carrying out their roles and responsibilities diligently.

### **Recommendations**

- **Ministries/Departments should carry out proper reconciliation of the Trust Fund Accounts.**
- **Overdrawn Trust Fund Accounts should be investigated and errors identified and rectified accordingly.**

### **Ministry's Comments**

*Each of the twelve agencies that have debit balances in their trust account have been requested to urgently explain and take corrective actions.*

Overdrawing of operating trust fund has been highlighted to Accounting Heads through:

- Daily extraction of balances sent through email to Accounting heads.
- Issuance of Memos to Ministries and departments.
- Presentation done in Accounting Heads meeting done monthly.
- Reconciliation training
- AP module training – as balances in GL will only reflect the outcome of the AP process.

Ministry of Economy through the Monitoring & Evaluation team will continue to address this issue through the above means.

#### **4.3 Variances noted in the Main Trust balances**

Reconciliation is an internal control mechanism established to ensure the accuracy of financial reports being produced not only at ministry/department level but most importantly at whole of government level. The Principal Accounts Officer must verify all the reconciliations before signing and submitting it to Ministry of Economy.

**Table 4.2 Variance between Trust Fund Cash and Main Trust Fund Liability Account**

<b>Trust Fund Cash Note 11 (\$)</b>	<b>Trust Fund Liability Account Note 19 (\$)</b>	<b>Variance (\$)</b>
119,788,149	120,588,162	(800,013)

Comment noted. Ministry of Economy will work with concerned Ministries and Departments to rectify the variance highlighted in the Trust Fund.

- Variances were noted between Ministry's Operating Trust Account Reconciliation statement and FMIS general ledger. Refer to Table 4.3 for details.

**Table 4.3 Variances between FMIS Ledger and Operating Trust reconciliation**

Ministries/ Departments	Reconciliation Statement (\$)	FMIS General Ledger (\$)	Variance (\$)
Civil Service	624,739	667,660	(42,921)

Comments noted. This issue has been rectified. Copy of reconciliation attached **Appendix 4.17**

#### 4.4 Account Balances Contrary to the Nature of Operating Trust Account

Trust Money is not payable into the Consolidated Fund. Trust money is to be accounted for separately from public money and other money.<sup>31</sup>

Audit review of the Operating Trust Account noted that sponsorship monies received from various sponsors, receipts for the Ratu Sukuna Biography, performance bond, and refundable deposits of totaling \$5,705,621 were deposited or retained in the Consolidated Fund Account instead of a separate bank account. Refer to **Appendix 3.2** for details.

MINISTRY	ALLOCATION	DESCRIPTION	2016	STATUS
EDUCATION	1-21101-21999-895052	Performance Bond	129,831	The memo sent from Ministry of Education to Ministry of Economy is currently under review. <a href="#">Appendix 4.18</a>
YOUTH & SPORTS	1-25101-25101-899999	Miscellaneous Fund	8,985	Financial advice will be provided by our Policy unit. Memo for adjustment of balances attached. <a href="#">Appendix 4.19</a>
PMS OFFICE	1-02101-02101-899988	Sports Trust Account	577,456	This issue is currently under review by Ministry of Economy. <a href="#">Appendix 4.20</a>
	1-02101-02999-899988	Miscellaneous Fund Open Item	62,795	
IMMIGRATION	1-06201-70999-895001	Immigration Trust	2,304	Comment noted. Department of Immigration is currently in the process of regularizing this Trust account.
FOREIGN AFFAIRS	1-08103-80101-863101	Admin Contribution Foreign Mission	239,445	Comments noted. The issue of recording Revenue in SLG86 has been rectified Foreign mission are posting to respective revenue allocation.  <a href="#">Way forward</a> - discussions are underway with Ministry of Foreign Affairs to adjust GL balances in SLG 86.
	1-08103-80102-863101		330,158	
	1-08103-80201-863101		49,269	
	1-08103-80401-863101		3,261	
	1-08103-80701-863101		131,018	
	1-08103-81001-863101		23,962	
	1-08103-81102-863101		8,101	
PSC	1-17301-02999-899988	Miscellaneous Fund Open Item	2,805	Comment noted. Ministry of Economy has received submissions to clear balances for PSC which are currently in Civil Service. Refer to <a href="#">Appendix 4.10</a> and <a href="#">4.21</a>
HEALTH	1-22101-22999-895011	Health Trust	111	Comment noted. Ministry of Health has confirmed they are in the process of addressing this issue.
HOUSING	1-23301-85999-860101	Security Deposits	95	MoE through Policy has confirmed creation of True trust account will take place. The Ministry will be requested to formally write to MoE for trust fund account to be created.
	1-23101-23101-860103	Tender Deposits	326,361	

MINISTRY	ALLOCATION	DESCRIPTION	2016	STATUS
INFRASTRUCTURE & TRANSPORT	1-40301-99991-862102	JC Retention Money	1,505	These accounts will remain in fund 1 as per retention money policy decision MoE will review this at whole of government level.
	1-40601-84999-862102	JC Retention Money	1,681,904	
	1-40301-99991-860101	Security Deposits	13,209	MoE through Policy has confirmed creation of True trust account will take place. The Ministry will be requested to formally write to MoE for trust fund account to be created. Financial advice will be provided by our Policy unit.

#### 4.5 Impact of Misstatement and Inadequate Evidence on Trust Fund Balance

The Trust Fund balance of \$143,329,585 as at 31 July 2016 has been misstated in view of the following errors and omissions:

**Table 4.4 Details of misstatement and inadequate evidence**

Errors and Omissions	Overstated (Understated) (\$)
Reconciliations not prepared	1,502,735
Inadequate listings of beneficiaries	26,738,044
Lack of supporting documentation for lender and security deposits, journal adjustments and no cash for administration contributions for foreign mission.	2,237,416
Variance between Trust Fund Cash and Trust Fund Liability Account	800,013
Variances between FMIS Ledger and Ministry's reconciliation	42,921
Overdrawn balances	(1,367,602)
<b>Total</b>	<b>29,954,527</b>

The net impact of the misstatements and unsubstantiated balances totaling \$29,954,527 or 21% of the total trust fund balance in the 2016 accounts is substantial. As such, audit could not ascertain the accuracy and the completeness of trust fund account balances as at 31 July 2016.



## 5.0 Revenue

The total forecasted revenue by government in 2016 was \$3,128,731,000 which comprised of \$2,802,953,800 in operating revenue and \$325,777,200 in investing revenue.<sup>32</sup> No forecast was provided for revenue generated from government Trading and Manufacturing Activity operations.

However, the actual revenue collections by government in 2016 from its normal operations totaled \$1, 500, 808,192<sup>33</sup> thus recording a shortfall of \$1,627,922,876 or 52% of the total estimated revenue collections. The key contributing factor to the shortfall of revenue was the change in the government financial year. The actual revenue collection is for seven months while the budgeted is for 12 months. Table 5.1 shows the actual revenue collected over the last five years.

**Table 5.1 Revenue by Type over the Last 5 years**

Year	Investing Revenue – Actual (\$)	Operating Revenue – Actual (\$)	Total Actual [a] (\$)	Investing Revenue – Budgeted* (\$)	Operating Revenue – Budgeted* (\$)	Total Budgeted* [b] (\$)	Variance [a-b] (\$)
2012	86,043,083	1,854,766,943	1,940,810,026	35,819,200	1,906,987,800	1,942,807,000	1,996,974
2013	59,894,427	2,038,833,496	2,098,727,923	75,744,230	2,032,634,700	2,108,378,930	9,651,007
2014	80,723,992	2,290,281,755	2,371,005,748	513,955,962	2,207,821,990	2,721,777,950	350,772,202
2015	255,471,928	2,544,762,858	2,800,234,786	551,026,138	2,571,412,262	3,122,438,400	322,203,614
2016	67,559,756	1,433,248,436	1,500,808,192	358,637,411	2,770,093,657	3,128,731,068	1,627,922,876

\*Source: FMIS General Ledger

### 5.1 Weaknesses in Internal Controls for Revenue

Audit review of internal controls relating to revenue for Ministries/Department noted the following weaknesses, the details of which are listed in **Appendix 7.1.1** and **Appendix 7.1.2**.

- Balances of \$1,532,412 were incorrectly posted to revenue allocations.
- Variance of \$534,779 was noted between the Ministry's records and the general ledger.
- Over/under statement of revenue by 229,464.
- Delays in banking of \$66,879.
- Ministry of Sugar received \$8,141 in Board sitting allowances for the Director of Sugar for attending board meetings for which official government receipts were not issued.
- Ministry of Agriculture TMA did not maintain the gazetted list of fees and charges for revenue collected from TMA sales. The fees list provided for audit was prepared by

the Revenue Clerk at the Ministry's headquarters who indicated that the list was prepared after enquiring from the respective revenue collectors in the stations.

The above findings indicate the control weaknesses and lack of proper supervisory checks in the operation and administration of government revenue. Consequently, audit could not fully substantiate the accuracy and the completeness of the revenue balance of \$1,514,963.112.

### **Recommendations**

Ministries and departments should strengthen the controls of receipts of public monies.

### **Ministry's Comments**

Auditor recommendations are noted. The MoE continues to stress in the Accounting Heads on the importance of their role in both revenue and expenditure management and that SOP's are developed a maintained on the processes. Internal controls are reviewed and revamped progressively.

One of the areas highlighted by the Internal Auditor of MoE that needs proper monitoring is revenues. This is communicated to the accounting heads during our monthly meetings.

**Appendix 7.1.1 and Appendix 7.1.2**

Breakdown on Monetary Values						
Ministries/Dep artments	Revenue amounts that were incorrectly posted	Variance Between Ministry's record and GL	Under/Overst. of Revenue	Delays in Banking	Board Sitting Allowance without Receipts	Anomalies in revenue
Ministry of iTaukei Affairs	15,843					The balances for scholarship bond recovery were still reflected in the Ministry's general ledgers despite the transfers of the administration of scholarships to the TSLB from 2014.
Department of Information Communicati on				2,080		Review of the lodgment records reveal that cash collected by the Department of Information were not banked daily. Refer to the Table below for details (Appendix 7.1.2 page 144)
Ministry of Women, Children & Poverty Alleviation	368,528					The audit noted that cheques for Social Welfare Allowances were returned from the banks due to incorrect recipient's bank account details. The audit established that the Ministry recognized the returned cheques totaling \$368,528 from the banks as miscellaneous revenue contrary to finance regulations. Refer below for details.(Appendix 7.1.2 page 144)
Republic of Fiji Military Force	29,852					Vat receivable has been recognized as revenue.
						Income received from march band performance not recognised as operating revenue but is kept in the Band Trust Account. RFMF purchased new band equipment worth \$408,761 during the year and charges a fee of \$500 for march band.
						The revenue collector's chart for monitoring the revenue was not maintained.
Ministry of Agriculture		120,294				The audit review of the Ministry's Quarterly Return noted a significant variance of \$120,924 between the budgeted rental revenue from government quarters and the actual amount recorded in the FMIS general ledger.
						The audit noted that the Ministry did not maintain the gazetted list of fees and charges for revenue collected from TMA sales. The fees list provided for audit was prepared by the revenue clerk at the Ministry's headquarters who indicated that the list was prepared after enquiring from the respective revenue collectors in the stations.
Ministry of Sugar						The Ministry did not have any revenue records during the year including government receipt book, revenue collectors' analysis sheet and bank lodgment forms despite the Ministry receiving the Director of Sugars board sitting allowances for the above boards from previous years
					8,141	In 2016, the Ministry of Sugar received a total of \$8,141 as board sitting allowance for the Director of Sugar attending the board meetings without an official government revenue receipt being issued.
Ministry of	31,833					All receipts were posted to securities license fees allocation irrespective of their nature

Breakdown on Monetary Values						Anomalies in revenue
Ministries/Dep artments	Revenue amounts that were incorrectly posted	Variance Between Ministry's record and GL	Under/Overst. of Revenue	Delays in Banking	Board Sitting Allowance without Receipts	
<b>Defence, National Security &amp; Immigration</b>		21,410				There is a variance between the revenue in the agency financial statements and the general ledger of \$21,410.
		94,197				Unreconciled variance between the receipts generated by Integrated Border Control Management System (IBMS) records and General Ledger (FMIS) records \$94,197.
<b>Ministry of Fisheries &amp; Forests</b>		224,312				A variance of \$224,312 was noted between the audit calculation and FMIS general ledger fishing license fees
		74,566				There is no interface between the Timber Revenue System (TRS) and the FMIS general ledger. Consequently, a variance of \$74,566 was noted between the audit calculation and the FMIS general edger
<b>Ministry of Health &amp; Medical Services</b>			229,464			The TMA sales amount as per the FMIS/GL as at 31/07/16 was \$229,464. However the Ministry stated total sales of \$178,133 in its VAT return for the period ended 31/07/16. The audit noted that the total sale amount was under stated by \$51,331 by the Ministry in its VAT Return for the period ended 31/07/16.
				64,253		Incorrect revenue allocations were entered on the revenue receipt books and on some instances, the revenue allocations on the receipt books did not match with the revenue allocations on the revenue collectors' analysis sheets.
						Revenue allocations entered on the revenue receipt books were not clear as it was only scribbled on the receipt books, hence it cannot be deduced whether these receipts were posted to the correct allocations.
						In some cases, revenue allocations were not entered at all on the receipt books; hence, it was difficult to determine the accuracy of the revenue figures. The above anomalies were prevalent in the hospitals within the Central Division especially the Colonial War Memorial hospital.
						The audit review of revenue records in the Central Division noted evidences of delayed banking with cash being kept at the respective hospitals for a period of 3 to 98 days.
<b>Fiji Police Force</b>				546		Considerable delays in the lodgment of revenue by the Force.
	85,177					Instances were noted whereby the total amount of revenue including VAT was posted to the revenue allocation.
						Instances were noted whereby revenue receipts could not be traced. However, the receipt sequence before and after these receipts were banked.
<b>Ministry of</b>	215,966					The revenue collected is held with the missions overseas bank accounts and recorded in

Breakdown on Monetary Values						
Ministries/Dep artments	Revenue amounts that were incorrectly posted	Variance Between Ministry's record and GL	Under/Overst. of Revenue	Delays in Banking	Board Sitting Allowance without Receipts	Anomalies in revenue
<b>Foreign Affairs</b>	785,213					the Overseas Cash (SAG 51) allocation, hence, the cash was available to the Missions to meet its operational expenses The administrative fees collected by the overseas Missions were posted into the Operating Trust account instead of a revenue account. However, the Ministry following the audit query raised for the financial period ended 2015 on the current treatment, journalized all the postings from 01/01/16 to 31/07/16 to the miscellaneous revenue allocation.
<b>TOTAL</b>	<b>1,532,412</b>	<b>534,779</b>	<b>229,464</b>	<b>66,879</b>	<b>8,141</b>	

## 6.0 Expenditure

### 6.1 Overview of 2016 Government's Budgeted and Actual Expenditures

A total of \$3,414,536,487 was approved in the 2016 budget to be utilized for the year ending 31 December 2016. Under the 2016 Appropriation Act 2015, a sum of \$3,090,840,320 was approved to be issued from the consolidated fund to be applied to the ordinary services of the government for the year ended 31 December 2016. Included in this, is a sum of \$38,142,450 for recurrent and non-recurrent loans under the Lending Fund Account.

The government incurred a total expenditure of \$1,585,839,718 for the ordinary services for the period ending 31 July 2016. In addition, \$170,842,697 was incurred by government in the payment of pensions and debt servicing bringing the actual total expenditure for the government to \$1,756,682,415 as at 31 July 2016.

Detail of government expenditure is reflected in Table 6.1.

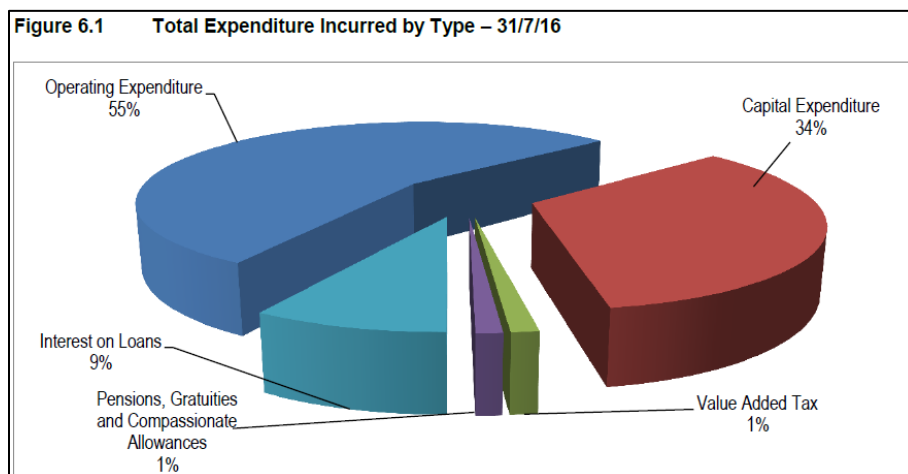
**Table 6.1 Overview of the 2016 Budget and Actual Expenditure for the period ending 31/7/2016**

Original Budget (\$)	Virements (\$)	Revised Budget Amount (\$)	Expenditure	Actual Expenditure 2016 (\$)	Savings (\$)	% Decrease
1,705,531,334	9,129,331	1,714,660,665	Operating <sup>37</sup>	973,460,885	741,199,780	43%
1,340,573,046	(10,539,256)	1,330,033,790	Capital <sup>38</sup>	590,688,998	739,344,792	56%
49,092,943	1,409,925	50,502,868	Value Added Tax <sup>39</sup>	21,689,835	28,813,033	57%
42,343,300	---	42,343,300	Pension, Gratuities and Compassionate Allowances <sup>40</sup>	20,754,067	21,589,233	51%
276,995,864	---	276,995,864	Interest on Loans <sup>41</sup>	150,088,630	126,907,234	46%
3,414,536,487	---	3,414,536,487	Total Government Expenditure	1,756,682,415	1,657,854,072	49%

The Government incurred expenditure totalling \$1,756,682,415 against a revised budget of 3,414,536,487 resulting in savings of \$1,657,854,072. The significant savings was primarily due to the budget being for twelve months while expenditures were only for the seven months up to 31 July 2016.

Majority of the government spending were on the Operating Expenditure which accounted for 55 % while Capital Expenditure accounted for 34% of the total expenditure. The remaining 11% was for other payments.

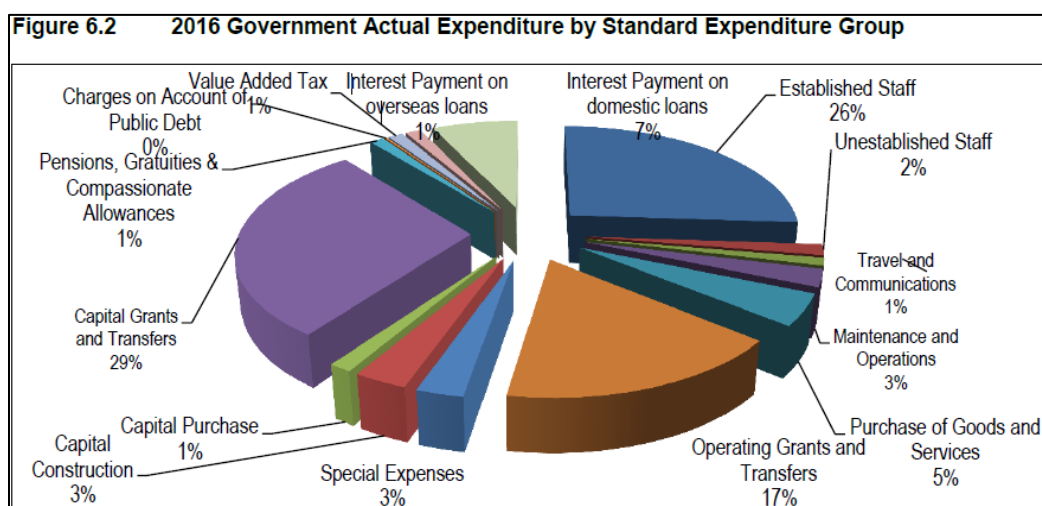
Refer to Figure 6.1 for percentages of types of expenditures.



In addition to the total expenditure, the Trading and Manufacturing Account (TMA) as a trading arm of the Government incurred a total expenditure of \$8,595,227 for the period ending 31 July 2016.

## 6.2 Overall Utilization by Standard Expenditure Groups (SEG)

Majority of the government spending were on capital grants and transfers, established staff and operating grants and transfers which accounted for 29%, 26% and 17% of the total expenditure, respectively. The remaining 28% was for other payments. Refer to Figure 6.2 for percentages of utilization by categories of expenditure groups.



Furthermore, summarized in Table 6.2 is the approved budget expenditure allocation and utilization in 2016 compared to financial year 2015.

<b>2016</b>			<b>Standard Expenditure Group</b>	<b>2015</b>		
<b>Budget 31/12/16 (\$)</b>	<b>Actual 31/07/2016 (\$)</b>	<b>Savings (\$)</b>		<b>Budget (\$)</b>	<b>Actual (\$)</b>	<b>Savings (\$)</b>
829,237,347	458,175,830	371,061,517	Established Staff	799,641,464	781,720,316	17,921,148
48,044,773	28,140,510	19,904,263	Government Wage Earners	43,736,828	45,089,205	-1,352,376
34,555,647	19,784,237	14,771,410	Travel and Communications	32,345,302	29,178,695	3,166,607
73,418,297	43,854,666	29,563,631	Maintenance and Operations	101,863,543	91,035,167	10,828,376
139,195,898	79,845,472	59,350,426	Purchases of Goods and Services	103,663,238	89,448,432	14,214,806
486,568,275	295,386,734	191,181,541	Operating Grants and Transfers	443,296,316	435,515,332	7,780,984
103,640,428	48,273,436	55,366,992	Special Expenditure	93,859,328	74,935,297	18,924,031
<b>1,714,660,665</b>	<b>973,460,885</b>	<b>741,199,780</b>	<b>Total Operating Expenditure</b>	<b>1,618,406,019</b>	<b>1,546,922,444</b>	<b>71,483,576</b>
42,343,300	20,754,067	21,589,233	Pensions, Gratuities and Compassionate Allowance	42,343,400	38,878,319	3,465,081
276,995,864	150,088,630	126,907,234	Interest on Loans	974,662,732	295,416,310	679,246,423
<b>319,339,164</b>	<b>170,842,697</b>	<b>148,496,467</b>	<b>Total Un-allocable Operating Expenditure</b>	<b>1,017,006,132</b>	<b>334,294,629</b>	<b>682,711,503</b>
160,743,778	54,938,745	105,805,033	Capital Construction	149,016,906	87,197,368	61,819,538
64,701,100	23,647,296	41,053,804	Capital Purchase	60,696,080	45,820,326	14,875,754
1,104,588,912	512,102,957	592,485,955	Capital Grants and Transfers	1,110,479,818	911,998,695	198,481,123
<b>1,330,033,790</b>	<b>590,688,998</b>	<b>739,344,792</b>	<b>Total Capital Expenditures</b>	<b>1,320,192,804</b>	<b>1,045,016,389</b>	<b>275,176,415</b>
50,502,868	21,689,835	28,813,033	Value Added Tax	74,298,459	55,558,866	18,739,593
<b>3,414,536,487</b>	<b>1,756,682,415</b>	<b>1,657,854,072</b>	<b>TOTAL EXPENDITURE / BUDGET SAVINGS</b>	<b>4,029,903,414</b>	<b>2,981,792,328</b>	<b>1,048,111,806</b>

### 6.3 Government Budget for 7 Months Period

The audit noted that the Parliament of the Republic of Fiji passed the:

- 2016 Appropriation Act 2015 - to appropriate a sum of \$3,090,840,320 for the ordinary services of the government for the year ending 31 December 2016; and
- The Financial Management (Amendment) Act 45 for the change in financial year (from 31 December to 31 July)



Despite the change in the financial year, it was noted the 2016 Appropriation Act 2015 was not amended to agree with the change in the financial year. Ministry of Economy also did not place controls to ensure that budget forecasts for only seven months were utilized. As such, Ministries and Departments continued using the budget for the year ending 31 December 2016.

Audit review of the budget spending noted that some Ministries and Departments had utilized 75 - 100 % of the budget for each Standard Expenditure Groups as at 31 July 2016 indicating that they took advantage of the situation where a separate appropriation was not made for the seven-month period. Refer to *Appendix 4.1* for details.

Without the appropriation for the period ending 31 July, 2016, it was not possible to ascertain that expenditure incurred in excess of the seven-month period was properly authorized.

#### Recommendation

The Ministry must ensure that in any change of financial period, the Appropriation Act is amended to be aligned with the financial year.

#### Ministry's Comments

This was done via Act No 10 of 2016, effective 28 April 2016 **Appendix 6.1** stipulate the provision for changes in financial year.

### **6.4 Payment Anomalies**

Audit review of the expenditures incurred by the Ministries/Department noted the following anomalies:

- Audited accounts were not always submitted for grant payments totalling \$245,074,878 to various entities. Refer to *Appendix 4.2* for details.
- Capital projects were not properly monitored resulting in numerous anomalies in projects totaling \$38,331,063. Refer to *Appendix 4.3* for details.
- Expenditures were not always properly authorised (\$16,886,144) and budgeted (\$5,272,698). Refer to *Appendix 4.4* and *Appendix 4.5* for details. Furthermore, expenditures amounting to \$619,636 were posted to various SEGs against a zero revised budgeted provision. Refer to *Appendix 4.6* for details.

- Supporting documentations for procurements totaling \$17,881,268 were not provided for audit verifications. Refer to *Appendix 4.7* for details.
- Incorrect posting of expenditure to various allocations amounted to \$2,055,750. Refer to *Appendix 4.9* for details.
- Outstanding accountable advance (SAG 57000) of \$1,700,879 was not cleared for the period ending 31 July 2016. Refer to *Appendix 4.11*.
- Journal vouchers raised by the Office of President for clearance of the outstanding accountable advances amounting to \$832,425<sup>48</sup> were not adequately supported.
- A variance of \$620,099 was noted between FMIS general ledger and actual expenditure of the Foreign Missions.
- Provisional tax of \$281,785 was not withheld on payment made for contract service. Refer to *Appendix 4.12* for details.

The above findings indicate the ineffective controls that exist across government. Consequently, audit could not substantiate the accuracy and the completeness of the expenditure balance of \$1,756,682,415.

### **Recommendations**

Ministries/Departments must ensure:

- **That all capital projects are properly planned and adequate arrangements made to implement the projects as quickly as possible when funds are provided;**
- **Ensure that supporting documents are maintained and provided for audit verifications;**
- **That assets with a value in excess of \$2,000 is recorded in the fixed asset register;**
- **That all advance accounts are cleared within the 7 days deadline. Outstanding balances should be recovered from officers concerned through salary deduction;**
- **To comply with the changing requirements of FRCA for Provisional Tax deductions for all contract payments; and**
- **Regular evaluation of internal control is carried out and corrective action is taken to address the any weaknesses identified.**

## **Ministry's Comments**

Office of the Auditors General's recommendations are noted. The decision to implement capital projects on time, is rested with head of budgetary sectors/Permanent Secretaries. That includes planning and implementation. We have no other powers as the Chief Financial Officer of an agency is the PS. However, we continue to provide regular updates and advice to Ministries/Departments regarding their funding utilization. On another note, Ministries are required to provide acquittals when requesting for release of funds. This is part of the RIE Checklist.

The Ministries and Departments have to adhere to Procurement Regulation 2010, Finance Instructions and agency's Finance Manual for its procurement of goods, services and works. This has already been highlighted in Accounting Heads meeting.

It is the prerogative of Ministries and departments to update the fixed asset register as they need to maintain the list of assets the particular ministry/department holds. However, Ministry of Economy through its FMIS user group and accounting heads meeting have also stressed the importance of keeping an up to date fixed asset register.

There is an Accountable Advance Policy in place and the issue of clearances is documented in all Ministries and Departments Finance Manuals duly endorsed by the respective Heads of Ministries and Departments. The Permanent Secretaries under the Financial Management Act are also responsible for the effective system and effective internal controls in their various ministries and departments.

Changing requirements of FRCA are highlighted in accounting heads meeting that is held on monthly basis and respective accounting heads are responsible to adhere to all requirements of FRCA. Furthermore, FRCA also makes presentations on the new changes in the accountings heads meetings.

As per Part 10 of Financial Instructions, section 59 (2), the prerogative is with the accounting heads to make recommendations to Permanent Secretaries for the effective design and operation of internal controls across the agency.

## 6.5 Expenditure Classification

The budget papers for a financial year (the “budget year”) comprise budget estimate that specify the appropriation categories for each head appropriation in the Bill.

The Public Service Commission was allocated \$5,502,530 under Head 13 Independent Commission 2016 budget. The total budget allocated was recorded under SEG 6 – Operating Grants and Transfers and the actual expenditure incurred as at 31 July 2016 was \$2,193,373.

Moreover, total expenditure of \$398,656 was also incurred under SEG 1 of Head 13 without an approved budget.

The Ministry of Civil Service administered the allocation for Public Service Commission Budget Head 13 and it was used to cater for payment of salaries, allowances and other related payments for all permanent secretaries in the civil service. No grant was paid from the allocation.

The classification of the budget allocation for the Public Service Commission (Head 13) under SEG 6 – Operating Grant and Transfers may be inappropriate as the budget was used for payment of salaries and allowances of appointed Permanent Secretaries in Government.

### **Recommendation**

**The operating expenditure allocation in Head 13 Public Service Commission should be classified appropriately to relevant Special Expenditure Groups (SEG).**

### **Ministry’s Comments**

The recommendation is agreed to by Ministry of Civil Service. The Ministry administered the allocation for Public Service Commission Budget Head 13 and it was used to cater for payment of salaries, allowances and other related payments for all permanent secretaries in the civil service. No grant was paid from the allocation.

The classification of the budget allocation for the Public Service Commission (Head 13) under SEG 6 – Operating Grant and Transfers may be inappropriate as the budget was used for payment of salaries and allowances of appointed Permanent Secretaries in Government.

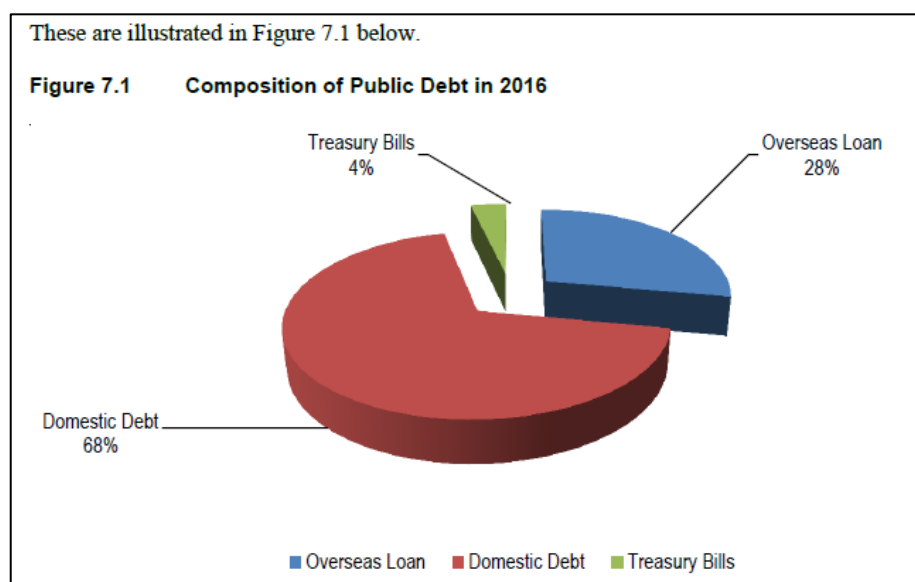
## 7.0 BORROWING FUND ACCOUNT

The Minister may, on behalf of the State, borrow money:

- (a) By raising loans of such amounts as may be necessary for the purpose of funding the budget deficit from time to time and any standing or other appropriations;
- (b) By raising loans of such amounts and for such purposes as the House of Representatives may Authorize by resolution; and
- (c) By means of overdrafts or advances, but so that the total amount outstanding by way of overdrafts and Advances under this paragraph does not at any one time exceed \$20 million or such greater amount as the House of Representatives may determine by resolution;

On such terms and conditions as the Minister thinks fit and whether within or outside Fiji. Public debt in 2016 totaled \$4,502,423,786.

This comprised domestic borrowings of \$3,079,850,613 which made up 68% of total debt; overseas borrowings of \$1,258,728,393 amounting to 28%; and Treasury Bills of \$163,844,780 which made up the remaining 4%.



The government also receives short term advances from the Reserve Bank of Fiji referred to as Ways and Means. These advances are raised to meet immediate cash needs of

government. During the year, Government had utilized \$84,000,000 of this facility through the Reserve Bank of Fiji.

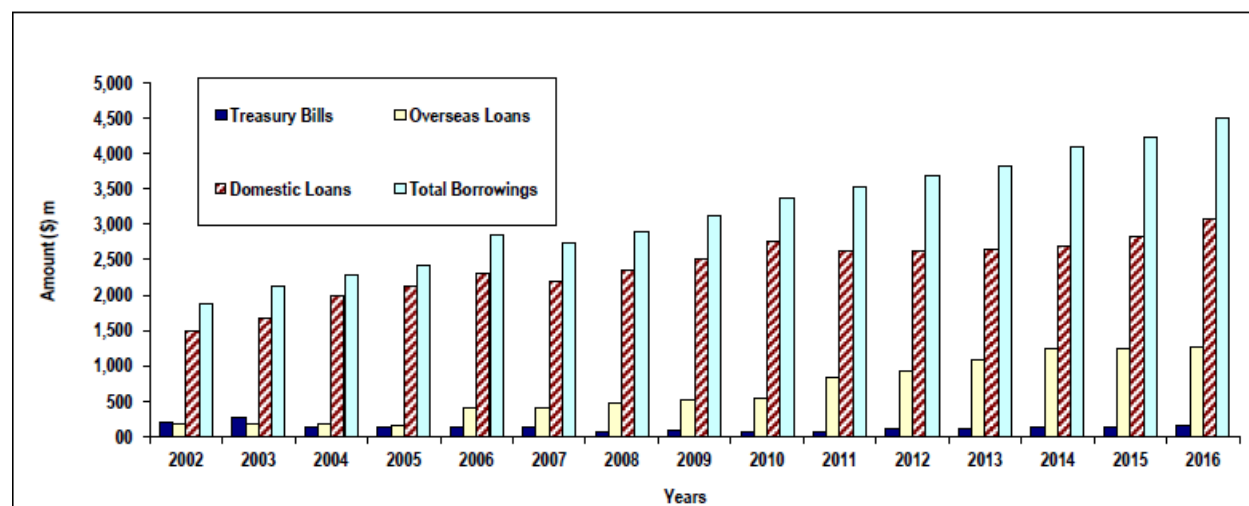
## 7.1 Trends in Government Borrowing by Category

The total public debt at the end of each year from 2002 to 2016 and its composition for the last 15 years are summarized in Table 7.1 below.

Year	Domestic Bond (\$)	Percentage of Total Borrowing (%)	Treasury Bills (\$)	Percentage of Total Borrowings (%)	Overseas Loan (\$)	Percentage of Total Borrowing (%)	Total (\$)
2002	1,501,095,650	79	196,432,453	10	193,505,879	10	1,891,033,982
2003	1,682,718,650	79	276,925,838	13	174,125,752	8	2,133,770,240
2004	1,986,515,650	87	126,987,822	6	168,665,379	7	2,282,168,851
2005	2,121,422,650	88	136,018,387	6	164,050,924	7	2,421,491,961
2006	2,300,672,650	80	141,311,687	5	416,729,200	15	2,858,713,537
2007	2,196,208,150	80	141,160,433	5	397,103,384	15	2,734,471,967
2008	2,346,258,150	81	64,552,990	2	475,994,415	16	2,886,805,555
2009	2,505,092,150	80	97,721,294	3	527,248,475	17	3,130,061,919
2010	2,759,292,150	82	74,969,800	2	548,461,798	16	3,382,723,748
2011	2,627,382,087	74	70,921,393	2	832,147,793	24	3,530,451,273
2012	2,631,565,650	72	111,732,963	3	935,530,587	25	3,678,829,200
2013	2,641,564,500	69	102,278,055	3	1,081,097,414	28	3,824,939,969
2014	2,698,317,500	66	130,600,000	3	1,254,277,326	31	4,083,194,826
2015	2,836,488,629	67	143,255,852	3	1,241,407,386	29	4,221,151,867
2016	3,079,850,613	68	163,844,780	4	1,258,728,393	28	4,502,423,786

The government bonds mature between 3 to 15 years. In contrast, the term of Treasury Bills which constitute 4% of the borrowings ranges between 14 days to 245 days.

Over the last 15 years, the percentage of overseas borrowings constituted an average 18% of the borrowings.

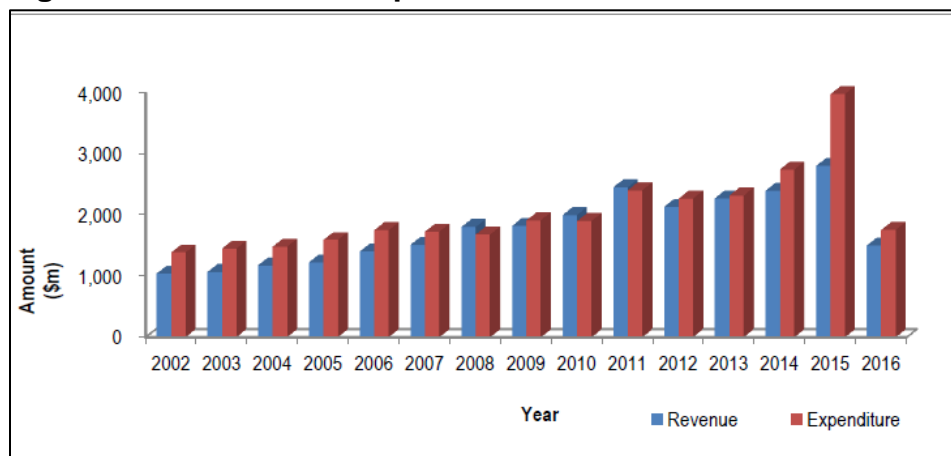


Public debt has been increasing over the years and in 2016, a further increase of \$281,271,919 or 7% was noted when compared to the debt of \$4,221,151,867 owed in

2015. The rise in the national debt level was due to increases in domestic debt by \$243.4 million, overseas debt by \$17.3 million and treasury bills by \$20.6 million.

Figure 7.3 shows the relationship between actual revenues and expenditures over the last 15 years.

**Figure 7.3 Revenue vs Expenditure**



The government expenditure<sup>51</sup> of \$1,847,933,171 exceeded revenue of \$1,500,808,190 during 2016 resulting in a gross deficit of \$347,124,981 for the period ended 31 July 2016. Figure 7.4 shows the gross deficit Financed from borrowings.

## 7.2 Borrowings over the 15 Year Period

The composition of government debt over the last 15 years is summarized in Table 7.2 Government borrowed a total of \$587,622,330 in 2016 which decreased by \$481,379,223 or 45% from a Total of \$1,069,001,553 borrowed in 2015. This was primarily due to the transactions for 2016 being for the Seven month period ended 31 July 2016.

Of the total amount borrowed in 2016, 14% or \$80,667,618 was borrowed from Overseas, 36% or \$211,787,728 were from Treasury Bills and 50% or \$295,166,984 was borrowed through domestic bonds.

Tabulated below are the total amounts borrowed by government from 2002 to 2016.

**Table 7.2 Government Borrowing Composition - 2002 – 2016**

Year	Domestic Bonds		Overseas Borrowings		Treasury Bills		Total	
	Amount \$'000	% Change	Amount \$'000	% Change	Amount \$'000	% Change	Amount \$'000	% Change
2002	299,000.0	31	26,196.7	156	437,465.8	3	762,662.5	15
2003	291,000.0	(3)	28,745.3	10	580,634.6	33	900,379.9	18
2004	449,218.2	54	9,267.7	(68)	189,256.7	(67)	647,742.6	(28)
2005	319,967.0	(29)	8,641.3	(7)	326,951.1	73	655,559.4	1
2006	356,778.6	12	283,258.7	3,178	528,715.4	62	1,168,752.7	78
2007	100,536.3	(72)	19,855.8	(93)	685,889.2	30	806,281.3	(31)
2008	341,266.9	239	20,802.8	5	391,725.9	(43)	753,795.6	(7)
2009	404,239.8	18	25,476.8	22	253,821.7	(35)	683,538.3	(9)
2010	452,734.1	12	61,949.5	143	687,313.1	171	1,201,996.7	76
2011	81,470.5	(82)	569,043.1	819	411,970.9	(40)	1,062,484.5	(12)
2012	192,102.0	136	136,428.7	(76)	306,664.5	(26)	635,195.2	(40)
2013	172,822.0	(10)	99,466.3	(27)	138,122.1	(55)	410,410.4	(35)
2014	233,405.8	35	120,241.3	21	306,883.4	122	660,530.5	61
2015	257,356.1	10	478,804.8	298	332,840.6	8	1,069,001.6	62
2016	295,167.0	15	80,667.6	(83)	211,787.7	(36)	587,622.3	(45)

Domestic borrowing increased by 15% in 2016 from the total of \$257,356,129 borrowed in 2015 while overseas borrowing decreased by 83% in 2016 from a total of \$478,804,784 borrowed in 2015. Treasury Bills raised in 2016 decreased by 36% from \$332,840,640 raised in 2015.

### 7.3 Loan Repayments

There is an annual obligation for the Government of Fiji to redeem the borrowings which become due for Payment. The terms and conditions of the borrowings are stipulated in the Loan Agreements between the Government of Fiji and the Lending Agency. The repayment of the borrowings of the Government of Fiji over the past 15 years is represented in Table 7.3

**Table 7.3 Repayment of Borrowings per Year 2002 – 2016**



Year	Domestic Bonds		Overseas Borrowings		Treasury Bills		Total Repayment (\$)
	Principal (\$)	Interest (\$)	Principal (\$)	Interest (\$)	Principal (\$)	Interest (\$)	
2002	100,500,000	95,284,124	20,772,240	9,297,644	417,637,927	2,362,073	645,854,008
2003	109,377,000	101,997,794	16,265,941	7,150,813	500,141,175	2,597,656	737,530,379
2004	145,403,000	108,597,234	11,173,546	6,114,485	339,194,733	4,310,352	614,793,350
2005	185,058,000	120,220,533	12,721,412	5,473,517	317,920,558	2,392,788	643,786,808
2006	177,500,000	129,455,783	13,459,979	5,737,600	523,422,114	5,746,278	855,321,754
2007	204,992,000	148,023,033	17,126,498	22,201,747	686,040,488	10,514,012	1,088,897,778
2008	191,210,000	147,383,717	12,473,769	20,787,406	468,333,380	566,620	840,754,892
2009	245,405,000	165,287,007	21,211,637	24,410,365	220,653,349	1,971,651	678,939,009
2010	198,540,500	190,736,707	32,850,575	22,901,709	710,064,626	4,295,961	1,159,390,078
2011	213,380,000	213,248,464	291,113,603	43,104,766	416,019,281	2,081,244	1,178,947,358
2012	233,268,000	210,534,849	19,274,087	46,264,569	265,852,974	850,851	776,045,330
2013	159,668,000	207,506,356	19,652,246	51,976,719	147,577,053	967,595	587,347,969
2014	176,650,000	209,451,828	25,516,704	53,809,084	280,578,002	921,998	746,927,616
2015	119,185,000	210,353,664	558,076,695	77,497,979	318,168,240	2,831,760	1,286,113,338
2016	51,805,000	125,058,218	39,445,755	22,612,476	191,198,800	2,417,936	432,538,185

Principal repayments for domestic bonds declined by \$67,380,000 or 57%, principal repayments for overseas Borrowings declined by \$518,630,940 or 93% and treasury bills declined by \$126,969,440 or 40%. Overall, the total principal debt repayments declined by \$712,980,380 or 72% in 2016.

Principal payments for 2016 for government borrowings totaled \$282,449,555 whilst interest payments amounted to \$150,088,630. Refer to Table 7.4 for details.

**Table 7.4 Total Principal and Interest Repayments in 2016**

Description	Principal Repayment (\$)	Interest Repayment (\$)
Domestic Bonds	51,805,000	125,058,218
Overseas Borrowings	39,445,755	22,612,476
Treasury Bills	191,198,800	2,417,936
<b>Total</b>	<b>282,449,555</b>	<b>150,088,630</b>

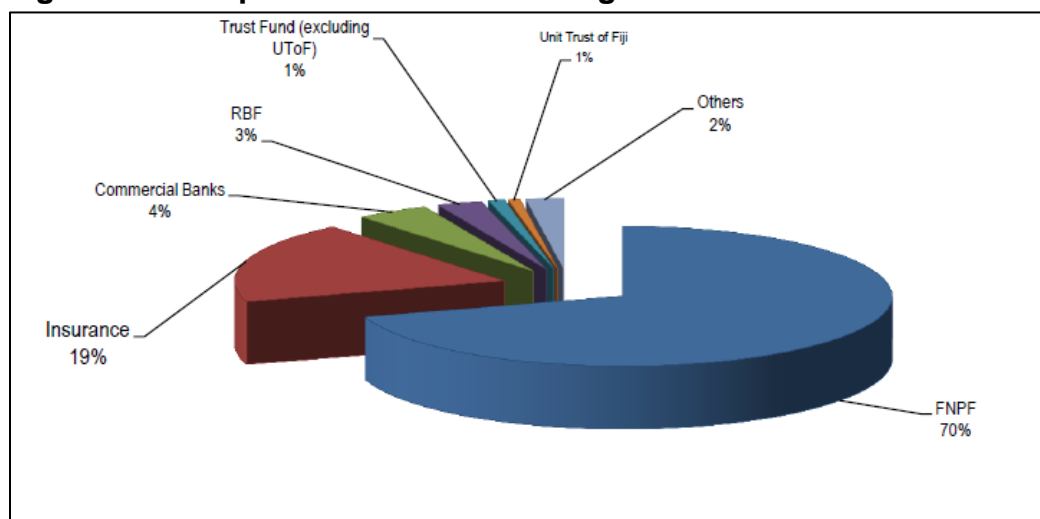
## 7.4 Domestic Bonds

The total domestic bonds as at 31 July 2016 amounted to \$3,079,850,613 or 68% of total Government Borrowings. This is inclusive of \$10,112 as unamortized premium. Table 7.5 shows the amounts that are Owed by the Government of Fiji to bond holders.

Bond Holder	Amount (\$)	Percentage of Outstanding Debt (%)
FNPF	2,161,406,500	70
Insurance Companies	580,066,000	19
Commercial Banks	135,120,000	4
RBF	82,708,000	3
Trust Fund (excluding UTOF)	29,919,950	1
Unit Trust of Fiji	21,770,000	1
Others	68,850,050	2
<b>Total</b>	<b>3,079,840,500</b>	<b>100</b>

Fiji National Provident Fund (FNPF) held 70% of the bonds as at 31 July 2016; Insurance Companies 19%; Commercial Banks 4%; RBF 3%; the remaining 4% of the bonds were held by Trust Fund, Unit Trust of Fiji and others. The composition of outstanding government bonds is shown in Figure 7.5

**Figure 7.5 Compositions of Outstanding Bonds as at 31/07/16**



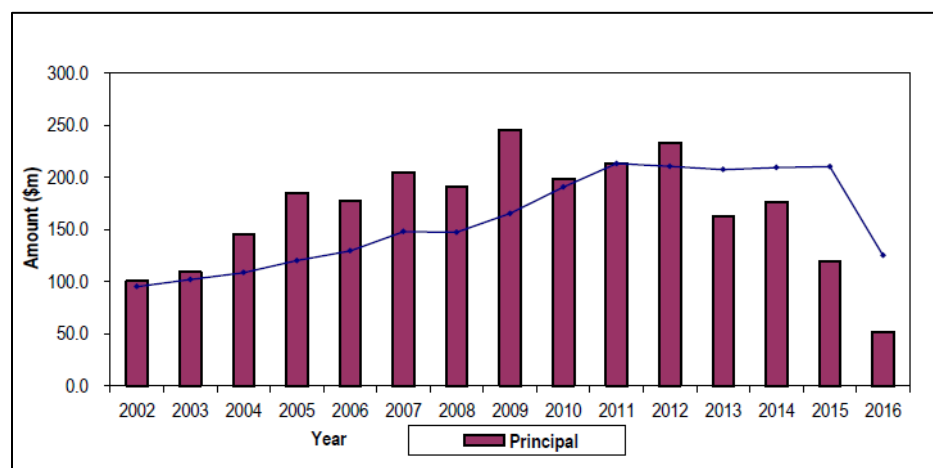
#### 7.4.1 Borrowings and Interest Payments

Details of outstanding borrowings over the past 15 years with the total interest paid and its budgetary Provision is shown in Table 7.6. Interest payments are made every six months

**Table 7.6 Domestic Borrowings Outstanding, Interest Paid, and Budgetary Provisions**

Year	Domestic Borrowings (\$m)	% Increase / (Decrease)	Interest Paid (\$m)	% Increase/ (Decrease)	Budgetary Provision (\$m)	% Change
2002	1,501.1	15	95.3	8	102.0	10
2003	1,682.7	12	102.0	7	110.0	8
2004	1,986.5	18	108.6	6	121.5	10
2005	2,121.4	7	120.2	11	124.0	2
2006	2,300.7	8	129.5	8	127.7	3
2007	2,196.2	(5)	148.0	14	148.2	16
2008	2,346.3	7	147.4	(0.4)	151.4	2
2009	2,505.1	7	165.3	12	156.7	4
2010	2,759.3	10	190.7	15	190.6	22
2011	2,627.4	(5)	213.2	12	225.4	18
2012	2,631.6	0.2	210.5	(1)	211.7	(6)
2013	2,641.6	0.4	207.5	(1)	208.3	(2)
2014	2,698.3	2	209.4	1	209.5	1
2015	2,836.5	5	210.3	0.4	210.5	1
2016	3,079.9	9	125.1	(41)	219.3	(4)

Total domestic borrowings outstanding increased by \$243.4 million or 9% in 2016 compared to 2015. Interest paid on domestic borrowings decreased by \$85.2 million or 41%. The Government had allocated \$219.3 million in the 2016 Budget for interest payments of which \$125.1 million was paid during the year. The interest expense and the principal repayments over the past 15 years are shown in Figure 7.6 below

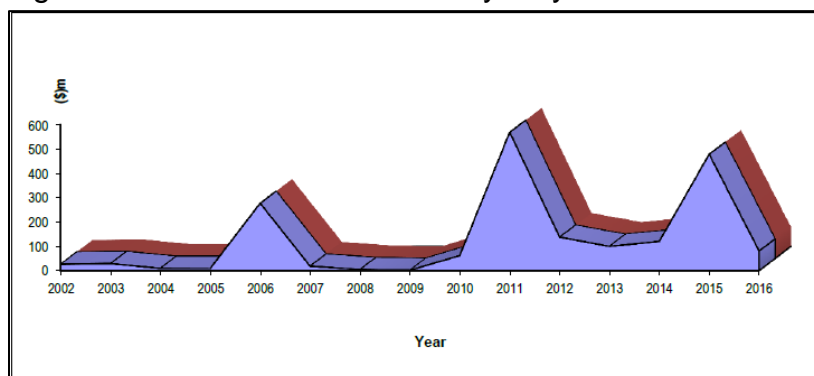
**Figure 7.6 Interest and Principal Repayments on Domestic Bonds**

## 7.5 Overseas Borrowings

The total outstanding overseas borrowing of Government as at 31 July 2016 was \$1,258,728,393 which Represents 28% of the total outstanding borrowings. Majority of the overseas borrowings obtained were to Finance capital projects.

### 7.5.1 Yearly Overseas Borrowings

Figure 7.7 shows the trend of the yearly cash overseas borrowings over the past 15 years



There were marked increases in overseas borrowing in years 2006 and 2011. In 2015, overseas borrowings increased again due to issuance of \$US150 million, \$US250 million and \$US200 million in global bonds. However in 2016, there was a sharp decline in borrowing trend due to no issuance of bonds by the Government.

The Government borrowed a total of \$80,648,873 from overseas which were mainly direct disbursements as shown in Table 7.7. Overseas loan repayments totaling \$62,058,231 were made in 2016, which comprises of \$22,612,476 in interest and \$39,445,755 in principal payments. Refer to Table 7.7 for the details of overseas borrowings made in the year 2016.

**Table 7.7 Overseas Loan Disbursements for 2016**

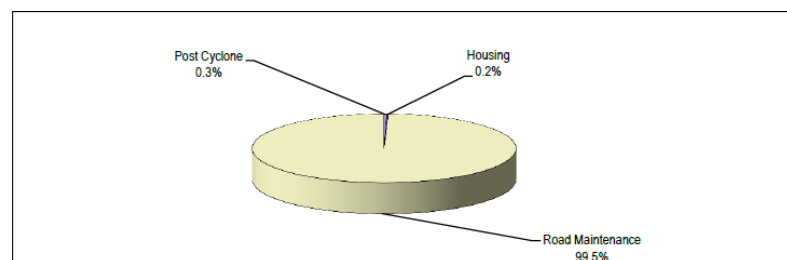
Loan	Cash (\$)	Capitalisation of Interest (\$)	Direct Disbursement (\$)	Total (\$)
<b>Road Upgrading Project</b>				
Buca Bay/Moto			4,448,110	4,448,110
Nabouwalu/Dreketi			65,447,380	65,447,380
Sigatoka / Serea Roads	---	---	10,335,086	10,335,086
<b>Post Cyclone Winston Emergency</b>				

Loan	Cash (\$)	Capitalisation of Interest (\$)	Direct Disbursement (\$)	Total (\$)
Post Cyclone Winston Emergency Development Policy Operation	---	259,825		259,825
<b>Housing Project</b>				
2014 ADB/ Transport Infrastructure Investment (Sector) Project		158,472		158,472
<b>Total</b>	---	<b>418,297</b>	<b>80,230,576</b>	<b>80,648,873</b>

Borrowings in relation to the Road Upgrading Project comprised of 99.5% or \$80.23 million of the total overseas borrowings by Government as at 31 July 2016. The funds obtained for this project were to be used for road upgrading, rehabilitation, and the management of road assets and sector resources.

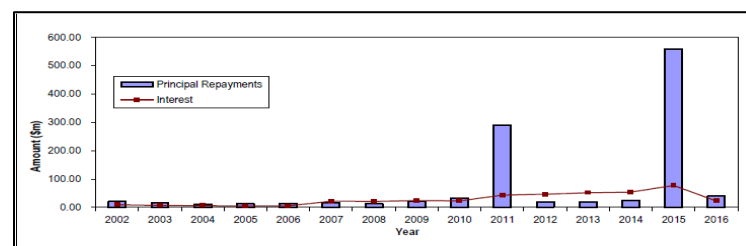
The composition of the overseas Borrowings is illustrated in Figure 7.8

**Figure 7.8 Composition of Overseas Borrowings**



### 7.5.2 Overseas Borrowings Outstanding & Interest Paid

Table 7.8 provides details of overseas borrowings outstanding over the past 15 years with the total interest paid each year.



**Table 7.8 Overseas Borrowings Outstanding, Interest Paid and Budgetary Provision**

Year	Overseas Borrowings (\$m)	% Increase/ (Decrease)	Interest Paid (\$m)	% Increase/ (Decrease)	Budgetary Provision (\$m)	Variance (\$m)
2002	193.5	(6)	9.3	(5)	10.0	(6)
2003	174.1	(10)	7.2	(23)	9.4	(6)
2004	168.7	(3)	6.1	(15)	7.0	(26)
2005	164.1	(3)	5.5	(10)	6.7	(4)
2006	416.7	154	5.7	4	6.4	(4)
2007	397.1	(5)	22.2	289	23.4	266
2008	476.0	20	20.8	(6)	24.8	6
2009	527.2	11	24.4	17	29.1	17
2010	548.5	4	22.9	(6)	28.2	(3)
2011	832.1	52	43.1	88	45.1	60

In 2016, the outstanding overseas borrowings increased by 1% compared to 2015. A sum of \$48,195,096 was provided in the 2016 Budget Estimates (revised) for interest expense of which \$22,612,476 was actual interest payment made in 2016.

The principal and interest payments are illustrated in Figure 7.9

### Figure 7.9 Interest Payments vs. Principal Repayments

#### 7.5.3 Revaluation of Overseas Borrowings

Overseas borrowings are revalued at year end using the RBF exchange rate as at 31/07/16 which has an Effect on public debt balance outstanding at year end. Revaluation may result in increase or decrease in the public debt balance based on the exchange rate prevailing at the end of the year.

Table 7.9 outlines the amounts attributed to overseas borrowings due to revaluation over a 15 year period.

### Table 7.9 Revaluation of Overseas Borrowings & Unrealized Exchange Gains/Loss

Year	Revaluation Increase/ (Decrease)	Overseas Borrowings	Unrealised Exchange (Gain)/Loss as a % of Overseas Borrowings
	(\$)	(\$)	
2002	(18,905,125)	193,505,881	(10)
2003	(31,859,534)	174,125,752	(18)
2004	(3,554,545)	168,665,379	(2)
2005	(534,342)	164,050,924	(0.3)
2006	(17,120,505)	416,729,200	(4)
2007	(21,844,864)	397,103,384	(6)
2008	70,352,312	475,994,415	15
2009	46,988,862	527,248,475	9
2010	22,885,617	548,461,798	4
2011	1,537,285	832,147,104	0.2
2012	14,895,650	935,530,587	2
2013	65,295,314	1,081,097,414	6
2014	65,340,835	1,254,277,326	5
2015	70,666,171	1,241,407,387	6
2016	(24,319,154)	1,258,728,393	(2)

The value of the overseas borrowings decreased by \$24,319,154 or 2 % due to floating exchange rates<sup>52</sup> for the seven months up to 31 July 2016.

## 7.6 Treasury Bills

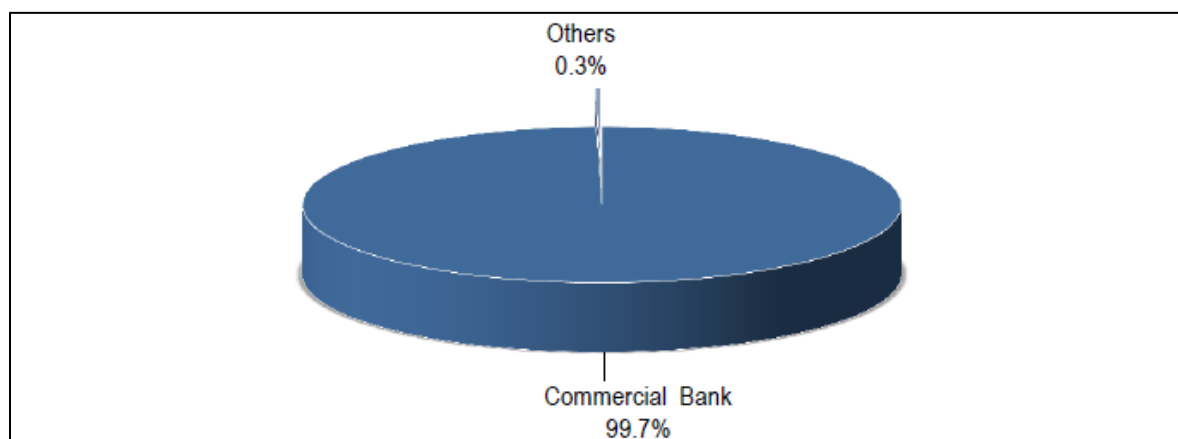
The Government through the Reserve Bank of Fiji (RBF) floats Treasury bills to raise funds in the domestic market to meet its short term needs.

Treasury bills are sold at a discount on face value of which the investor will receive face value upon Maturity. During the period, the government raised \$213,200,000 in Treasury bills of which \$211,787,728 constituted net borrowings by the government whilst \$1,412,272 represented discounts, as summarized in Table 7.10

Bank	Face Value	% of Total	Discount (\$)	% of Total	Net Receipts (\$)	% of Total
Commercial Banks	212,500,000	99.7	1,397,392	99	211,102,608	99.7
Others	700,000	0.3	14,880	1	685,120	0.3
<b>Total</b>	<b>213,200,000</b>	<b>100</b>	<b>1,412,272</b>	<b>100</b>	<b>211,787,728</b>	<b>100</b>

Of the total Treasury bills issued in 2016, 99.7% were purchased by commercial banks and the remaining 0.3% was purchased by other entities and individuals. This composition is graphed below.

**Figure 7.10 Composition of Treasury Bills Borrowed for 2016**



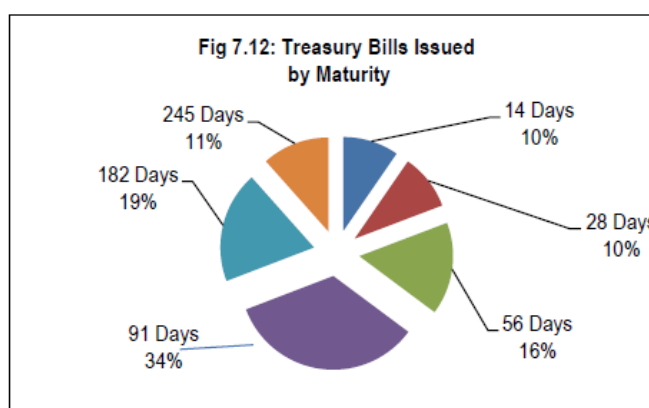
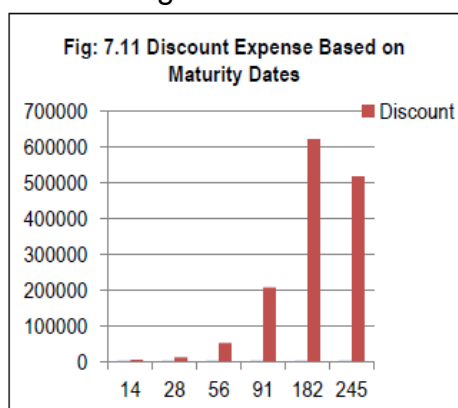
The Treasury bills have maturity periods ranging from 14 to 245 days.

**Table 7.11 Maturity of Treasury bills issued in 2016**

Maturity in Days	Face Value (\$)	Discount (\$)	Treasury Bill Cost (\$)
14	20,500,000	3,451	20,496,549
28	20,500,000	10,830	20,489,170
56	34,000,000	50,936	33,949,064
91	72,500,000	206,947	72,293,053
182	41,000,000	622,171	40,377,829
245	24,700,000	517,937	24,182,063
<b>Total</b>	<b>213,200,000</b>	<b>1,412,272</b>	<b>211,787,728</b>

The discount increases as the maturity date increases.

Refer to Figures 7.11 and 7.12 for these details:



### 7.6.1 Treasury Bills Over a 15-year Period



Treasury bills issued and redeemed over the last 15 years is summarized in Table 7.12.

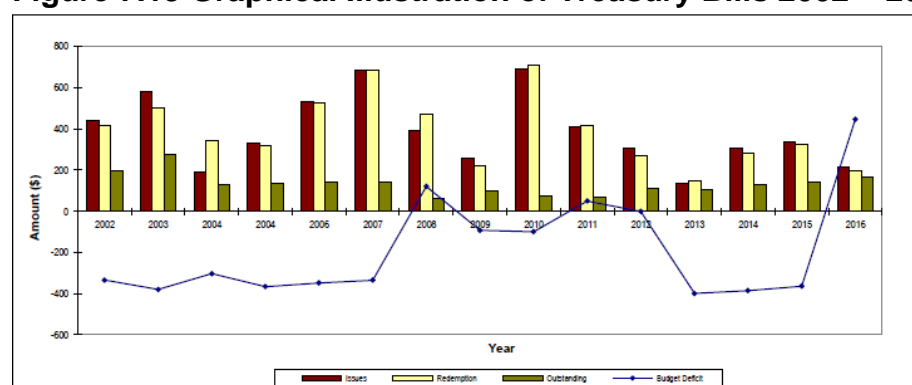
**Table 7.12 Treasury Bills 2002 – 2016**

Year	Balance Brought Forward (\$)	Issues (\$)	Redemption (\$)	Outstanding (\$)
2002	176,604,613	437,465,767	417,637,927	196,432,453
2003	196,432,453	580,634,561	500,141,176	276,925,838
2004	276,925,838	189,256,716	339,194,733	126,987,821
2005	126,987,822	326,951,124	317,920,558	136,018,388
2006	136,018,388	528,715,414	523,422,114	141,311,688
2007	141,311,687	685,889,234	686,040,488	141,160,433
2008	141,160,433	391,725,937	468,333,380	64,552,990
2009	64,552,990	253,821,653	220,653,349	97,721,294
2010	97,721,294	687,313,133	710,064,626	74,969,801
2011	74,969,800	411,970,874	416,019,281	70,921,393
2012	70,921,393	306,664,544	265,852,974	111,732,963
2013	111,732,963	138,122,146	147,577,053	102,278,056
2014	102,278,056	306,883,399	280,578,003	128,583,452 <sup>53</sup>
2015	128,583,452	336,000,000	321,327,600	143,255,852
2016	143,255,852	213,200,000	192,611,072	163,844,780

Treasury bills raised by Government over the last 15 years have fluctuated significantly. Similarly, the government deficits/surplus has also fluctuated over past 15 years.

The trend for Treasury bills issued, redemptions, bills outstanding at the end of the financial year and the yearly deficit/surplus are shown in Figure 7.13.

**Figure 7.13 Graphical Illustration of Treasury Bills 2002 – 2016**



In 2016, a budgeted gross deficit of \$445.4 million was recorded, with treasury bills outstanding totalling \$163.8 million.

## 7.6.2 Treasury Bills Management

Treasury bills are short-term financial instruments used by Ministry of Economy to cover shortfalls during the year. The analysis of budgeted revenue and expenditure as provided in the Budget and the Treasury bills raised for the year are as follows:

**Table 7.13 Revenue Variance vs. Treasury Bills Raised**

Revenue	2007 (\$m)	2008 (\$m)	2009 (\$m)	2010 (\$m)	2011 (\$m)	2012 (\$m)	2013 (\$m)	2014 (\$m)	2015 (\$m)	2016 (\$m)
<b>Budgeted Revenue*</b>										
Operating Receipts & Investing	1,430.00	1,411.50	1,522.40	1,496.50	1,745.70	1,942.80	2,108.40	2,721.80	3,122.40	3,128.7
Loan Receipts	371.00	370.20	522.50	497.50	734.50	338.40	398.90	385.40	891.90	445.4
<b>Total</b>	<b>1,801.00</b>	<b>1,781.70</b>	<b>2,044.90</b>	<b>1,994.00</b>	<b>2,480.20</b>	<b>2,281.20</b>	<b>2,507.30</b>	<b>3,107.20</b>	<b>4,014.30</b>	<b>3,574.1*</b>
<b>Actual Revenue</b>										
Operating Receipts & Investing	1,391.3	1,454.9	1,412.80	1,536.50	1,801.30	1,937.10	2,098.40	2,371.0	2,943.5	1,500.8
Loan Receipts	118.90	345.60	405.40	463.00	693.40	192.20	173.10	353.60	801.8	305.5
<b>Total</b>	<b>1,510.20</b>	<b>1,800.50</b>	<b>1,818.20</b>	<b>1,999.50</b>	<b>2,494.70</b>	<b>2,129.30</b>	<b>2,271.50</b>	<b>2,724.60</b>	<b>3,745.3</b>	<b>1,806.3</b>
Revenue Variance	(290.80)	18.80	(226.70)	5.50	14.50	(151.90)	(235.80)	(382.60)	(269.00)	(1,767.8)
Treasury Bills raised	685.89	391.73	253.82	687.31	411.97	306.66	138.12	306.88	336.00	213.2
Excess/(shortfall)	395.09	410.53	27.12	692.81	426.47	154.76	(97.68)	(75.72)	67	(1,554.6)

The operating and investment receipts should pay for operational costs of Government which include

Standard expenditure groups 1 - 7, 11 & 12 and capital development programs.

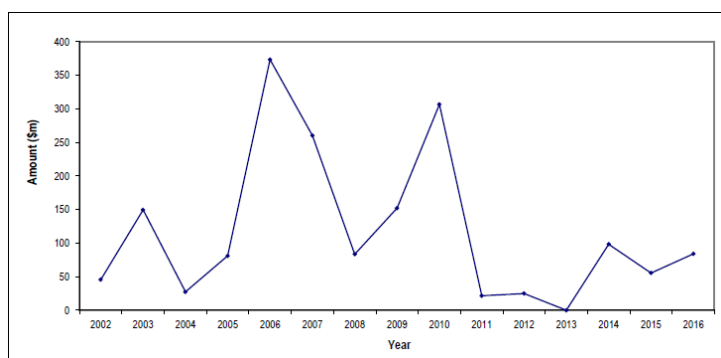
Treasury bills are raised to cover operational deficits provided that they are no more than the estimated Operating and investing receipts to be collected during the year. Government revenue and borrowings from domestic and overseas markets were not sufficient to meet the actual expenditure hence a total of \$213.2 million was raised through Treasury bills in 2016.

## 7.7 Ways and Means

The Ways and Means is a short term advance facility provided by the RBF for Government where advances are given to Government for a day to meet immediate cash deficits. The Ways and Means are replenished by Government during the year and are therefore not reflected as part of borrowings.

An analysis of Ways and Means balances for the past 15 years is illustrated in Figure 7.14.

**Figure 7.14 Ways and Means Balances 2002 – 2016**



Government utilized this facility and borrowed \$84,000,000 in 2016 compared to \$55,500,000 utilized in 2015.

## 7.8 Financial Flexibility

Financial Flexibility is an indicator of the degree a Government can increase its financial resources or revenue to respond to increasing financial commitments either by expanding the revenue or increasing its debt burden.

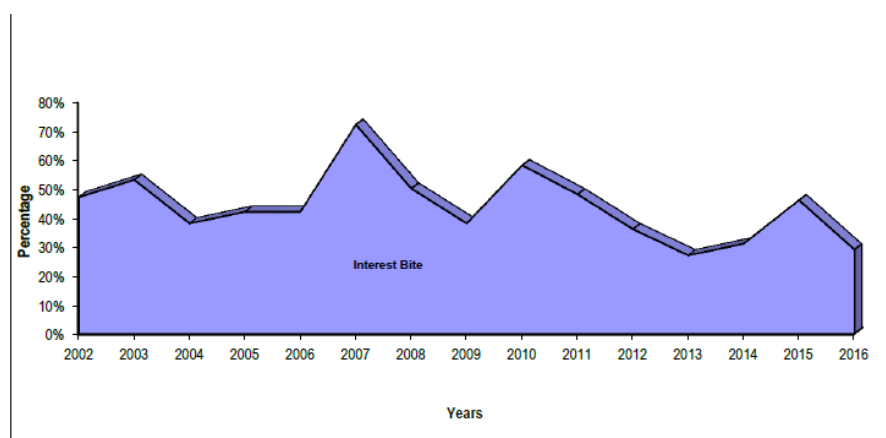
Table 7.14 contains data for total revenue and debt repayments of Government for a period of 15 years. The revenue derived by the Government includes a significant portion which is derived from borrowings. The flexibility analysis includes revenue data and loan components

**Table 7.14 Comparison of Revenue and Debt Repayments**

Year	Revenue (\$)	Debt Repayments (\$)	Interest Bite %
2002	1,363,992,433	647,020,349	47
2003	1,386,009,960	737,597,477	53
2004	1,634,663,320	617,152,850	38
2005	1,550,489,828	646,463,603	42
2006	2,035,207,842	857,682,649	42
2007	1,510,117,953	1,091,633,056	72
2008	1,800,583,846	896,317,497	50
2009	1,818,235,071	683,801,800	38
2010	1,999,480,409	1,155,094,117	58
2011	2,451,779,618	1,176,866,114	48
2012	2,129,334,959	775,194,479	36
2013	2,119,975,211	576,915,467	27
2014	2,393,392,529	746,927,616	31
2015	2,793,515,336	1,286,113,338	46
2016	1,500,808,190	432,538,185	29

Debt repayment comprises the principal and interest components of the domestic and overseas borrowings as well as the Treasury Bills redemption. The Interest Bite represents the percentage of Debt Repayments to Total Revenue.

**Figure 7.15 Percentage of Debt Repayments to Total Revenue**



In 2016, the financial flexibility measure was 29% indicating that the total debt repayment was equivalent to 29% of the revenue received by the Government during the year compared to 46% during 2015.

Hence, 71% of revenues collected were available for government programs in 2016 compared to 54% during 2015.

## 7.9 Financial Vulnerability

Financial Vulnerability is the measure of the degree of dependence of Government on sources of borrowing outside its control or influence.

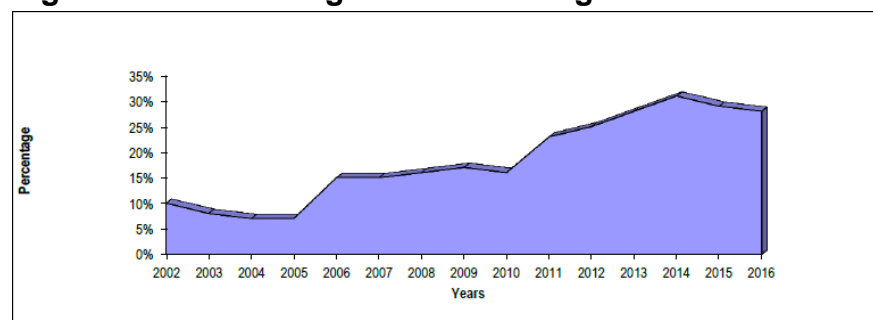
A measure of vulnerability is the comparison of Overseas Borrowings to the total Government debt.

Table 7.15 compares Overseas Borrowings to total Government Debt for a period of 15 year.

**Table 7.15 Comparison of Overseas Borrowings and Government Debt**

<b>Year</b>	<b>Outstanding Overseas Borrowings (\$)</b>	<b>Government Debt (\$)</b>	<b>%</b>
2002	193,505,881	1,891,033,984	10
2003	174,125,752	2,133,770,240	8
2004	168,665,379	2,282,168,851	7
2005	164,050,924	2,421,491,962	7
2006	416,729,200	2,858,713,537	15
2007	397,103,384	2,734,471,967	15
2008	475,994,415	2,886,805,555	16
2009	527,248,475	3,130,061,918	17
2010	548,461,798	3,382,723,748	16
2011	832,147,104	3,530,451,273	24
2012	935,530,587	3,678,829,200	25
2013	1,081,097,414	3,824,939,969	28
2014	1,254,277,326	4,083,194,826	31
2015	1,241,407,386	4,221,151,867	29
2016	1,258,728,393	4,502,423,786	28

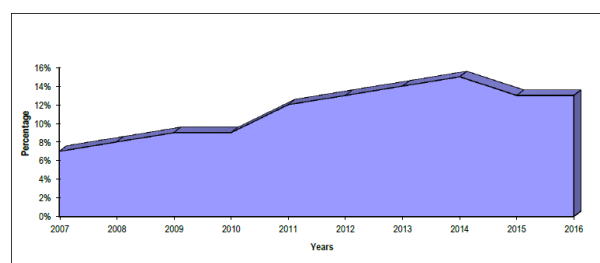
In 2016, overseas borrowings made up 28% of outstanding government borrowings which decreased by 1% when compared to 2015.

**Figure 7.16 Percentage of outstanding overseas loans to total government debt**

The overall trend indicates an increasing reliance by Government on overseas borrowings from 2006. There were sharp increases in 2006, 2011 and 2014 followed by a slight decreases in reliance in 2015 and 2016. Another measure of Financial Vulnerability is the comparison of overseas borrowings to Gross Domestic Product (GDP). Table 7.16 compares overseas borrowings to GDP over a period of 10 years.

**Table 7.16 Comparison of Overseas Borrowings and GDP**

Year	Overseas Borrowings (\$)	Nominal GDP (\$)	% of Overseas Borrowings /GDP
2007	397,103,384	5,440,100,000	7
2008	475,994,415	5,614,900,000	8
2009	527,248,475	5,614,100,000	9
2010	548,461,798	6,024,400,000	9
2011	832,147,104	6,768,500,000	12
2012	935,530,587	7,109,500,000[r]	13
2013	1,081,097,414	7,715,700,000[r]	14
2014	1,254,277,326	8,435,900,000[r]	15
2015	1,241,407,386	9,210,800,000[p]	13
2016	1,258,728,393	9,852,704,113	13

**Figure 7.17 Overseas Borrowings as a Percentage of GDP**

Moreover, the comparison of the domestic debt to GDP is another measure of Financial Vulnerability. Table 7.17 compares Domestic Borrowings to GDP for a period of 10 years.

**Table 7.17 Comparison of Domestic Borrowings and GDP**

Year	Domestic Borrowings (\$)	Nominal GDP (\$)	% of Domestic Borrowings/ GDP
2007	2,196,208,150	5,440,100,000	40
2008	2,346,258,150	5,614,900,000	42
2009	2,505,092,150	5,614,100,000	45
2010	2,759,292,150	6,024,400,000	46
2011	2,663,382,087	6,768,500,000	39
2012	2,631,565,650	7,109,500,000[r]	37
2013	2,641,564,500	7,715,700,000[r]	34
2014	2,698,317,500	8,435,900,000[r]	32
2015	2,836,488,629	9,210,800,000 <sup>54</sup> [p]	31
2016	3,079,850,613	9,852,704,113	31

Domestic Borrowing as a percentage of GDP remained stagnant at 31% in 2015 and 2016 due to increases in Domestic Borrowing and Nominal GDP.

**Figure 7.18 Domestic Borrowings as a % of GDP**

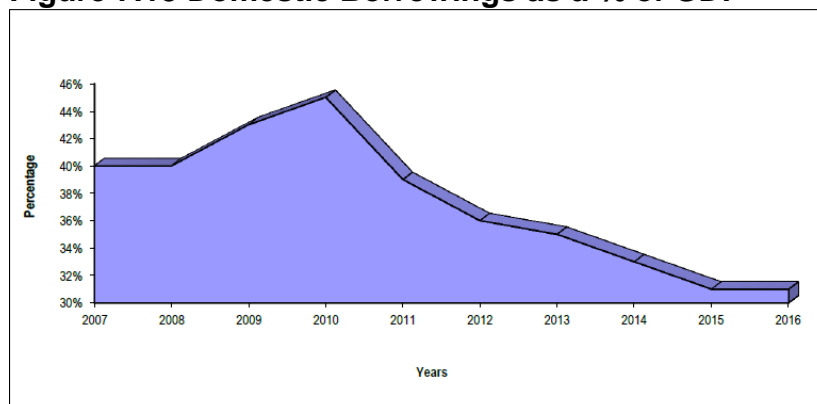


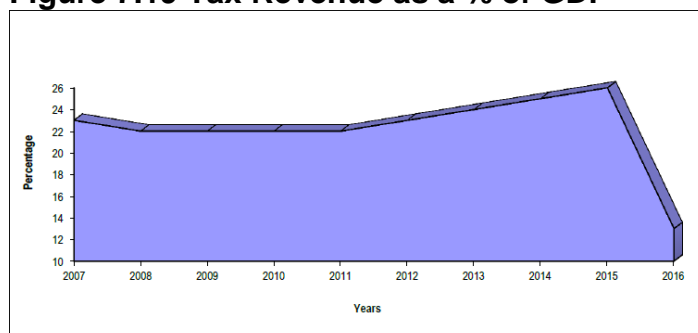
Figure 7.18 shows that the Domestic Borrowing as a percentage of the GDP has been decreasing over the years and indicates the nation's capability to meet its internal debt obligations when due.

Table 7.18 shows the comparison between Tax Revenue and the GDP.

**Table 7.18 Comparison of Tax Revenue and GDP**

Year	Tax Revenue (\$)	GDP (\$)	% of Tax Revenue/GDP
2006	1,227,220,772	5,325,700,000	23
2007	1,230,363,366	5,440,100,000	23
2008	1,243,057,337	5,614,900,000	22
2009	1,209,223,648	5,614,100,000	22
2010	1,302,130,578	6,024,400,000	22
2011	1,512,378,397	6,768,500,000	22
2012	1,616,297,515	7,109,500,000[r]	23
2013	1,879,243,556	7,715,700,000[r]	24
2014	2,117,742,442	8,435,900,000[r]	25
2015	2,359,863,231	9,210,800,000[p]	26
2016	1,314,519,968	9,852,704,113	13

Table 7.18 shows that the Tax Revenue as a percentage of GDP in the last 10 years has been between 22% -26%. In 2016, this percentage decreased to 13% due to change in the financial year from 12 months in 2015 to seven months in 2016.

**Figure 7.19 Tax Revenue as a % of GDP**

Another measure of Financial Vulnerability is the comparison of tax revenue to total borrowings. Table 7.19 compares tax revenue to debt for a period of 10 years.

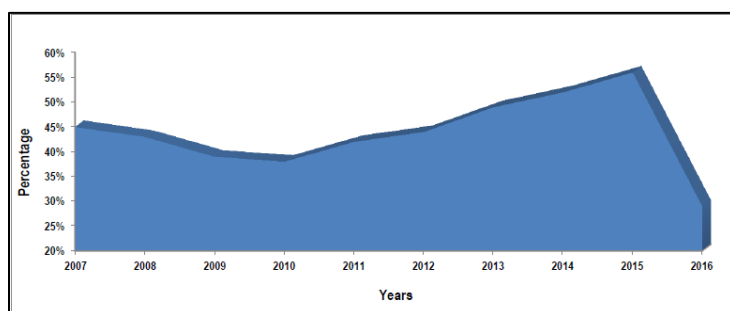
**Table 7.19 Comparison of Tax Revenue and Total Borrowings**

Year	Tax Revenue (\$)	Total Borrowings (\$)	% of Tax Revenue/Debt
2007	1,230,363,366	2,734,471,967	45
2008	1,243,057,337	2,886,805,555	43
2009	1,209,223,648	3,130,061,918	39
2010	1,302,130,578	3,382,723,748	38
2011	1,512,378,397	3,530,451,273	43
2012	1,616,297,515	3,678,829,200	44
2013	1,879,243,556	3,824,939,969	49
2014	2,117,742,442	4,083,194,826	52
2015	2,359,863,231	4,221,151,867	56
2016	1,314,519,968	4,502,423,786	29

The tax revenue as a percentage of debt has significantly decreased in 2016 compared to 2015 due to the amounts for 2016 being for seven month period ending 31 July 2016. This indicates that 29% of total government debt can be met from tax revenue in 2016.

**Figure 7.20 Tax Revenue as a Percentage of Debt**



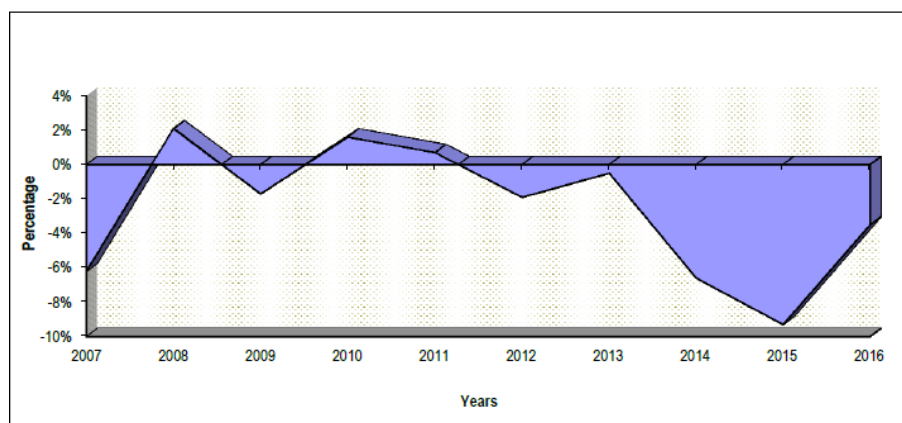


The ability of tax revenue to meet the debt over the 10 year period was on a declining trend since 2007, and gradually increased from 2010 to 2015 due to increase in tax collections during these years. However, a sharp decrease in 2016 was due to the change in accounting period from 12 months in 2015 to seven months in 2016. The revenue collected is for seven months only. Table 7.20 shows the comparison of gross surplus/ (deficit) to GDP.

**Table 7.20 Comparison of Gross Deficit (Surplus) and GDP**

Year	Gross Surplus/ (Deficit) (\$)	GDP (\$)	% of Gross Surplus (Deficit) /GDP
2007	(334,935,764)	5,440,100,000	(6.2)
2008	120,093,824	5,614,900,000	2.1
2009	(93,167,378)	5,614,100,000	(1.7)
2010	99,398,751	6,024,400,000	1.6
2011	49,027,101	6,768,500,000	0.7
2012	(136,880,612)	7,109,500,000[r]	(1.9)
2013	(37,583,667)	7,715,700,000[r]	(0.5)
2014	(554,256,802)	8,435,900,000[r]	(6.6)
2015	(859,086,199)	9,210,800,000[p]	(9.3)
2016	(347,124,981)	9,852,704,113	(3.5)

**Figure 7.21 Gross Deficit as a Percentage of GDP**



In 2016, the gross deficit as a percentage of GDP improved to 3.5% when compared to 2015.

## 7.10 Financial Sustainability

Financial Sustainability is defined as the ability of Government to maintain existing programs and meet existing creditor requirements without increasing the burden on the economy. It is measured by the ratio of Government debt to the Gross Domestic Product.

The total Government debt as a percentage of GDP as at 31 July 2016 was 46%, indicating debt Sustainability relative to the production of goods and services.

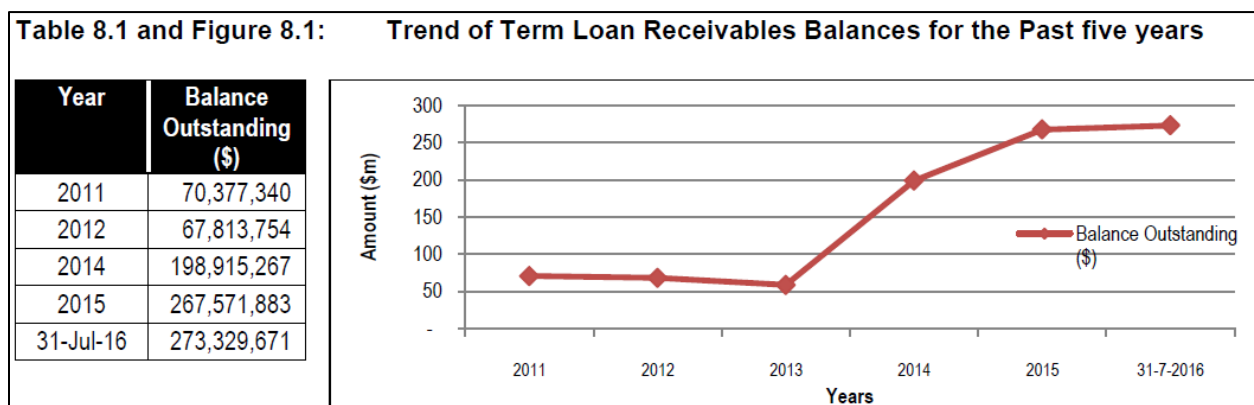
**Table 7.21 Total Government Debt to GDP**

Year	Government Debt (\$)	% of Growth	GDP (\$)	% Growth	Public Debt as a % of GDP
2007	2,734,471,967	(4)	5,440,100,000	2	50
2008	2,886,805,555	6	5,614,900,000	3	51
2009	3,130,061,918	8	5,614,100,000	(0.01)	56
2010	3,382,723,748	8	6,024,400,000	7	56
2011	3,530,451,273	4	6,768,500,000	12	52
2012	3,678,829,200	4	7,109,500,000[r]	5	52
2013	3,824,939,969	4	7,715,700,000[r]	9	50
2014	4,083,194,826	7	8,435,900,000[r]	9	48
2015	4,221,151,867	3	9,210,800,000[p]	9	46
2016	4,502,423,786	7	9,852,704,113	7	46

## 8.0 TERM LOAN RECEIVABLE

The total outstanding loans owed to Government as at 31 July 2016 was \$273,329,671, an increase of \$5,757,788 or 2% compared to the year 2015. The significant increase noted in 2016 was attributed to the subsequent recording of \$10.9 million to Public Rental Board to recover the debt related cost and fees associated with the Chinese Concessional Loan entered on 28 July 2010.

The Term Loans Receivable balances for the past five years is graphed and tabulated below.



Moreover, majority of the government entities that had signed the loan agreements in 2015 would commence with the loan repayment of loans from 2020.

### 8.1 Unsubstantiated Term Loan Receivable Balance

It was noted that details and balances of the monies owed to government under the Term Loan Receivable Account totaling of \$1,463,143 could not be substantiated as relevant records were not maintained by the Ministry of Economy. Details of monies lent by government that could not be substantiated are provided in Table 8.2.

**Table 8.2: Unsubstantiated Lending Fund Balances**

Type of Loan	Opening Balance (\$)	Amount Lent (\$)	Amount Recovered (\$)	Balance (\$)
Public Service Student Loan Scheme	1,809,545	---	346,402	1,463,143

The above anomalies increase the risk of erroneous loan balances being shown in the accounts of Government.

#### Recommendations

- **The Ministry of Economy should ensure that relevant records are maintained for all loans given by Government;**
- **Amounts reflected in the financial statements should be substantiated with appropriate supporting documents; and**
- **The Ministry of Economy should prepare periodic reconciliations of monies lent and recovered.**

#### **Ministry's Comments**

*The Ministry of Economy has just taken over the administration of the Loans Recovery Unit which was previously based at PSC. While noting the challenges (such as record keeping and staff shortage) that came with the unit, the ministry has continued to address this area by diverting additional staff to the unit now and then. Records are being updated and this is still a work in progress. According to the report, the sum of \$1.46m is still outstanding. In working with the two staff from PSC, the Ministry of Economy has since taken considerable effort in trying to identify the recipients who make up this amount. The Ministry has also convened meeting with BSP wherein issues relating to non-narrated bank deposits make it difficult to update the correct recipient. Reconciliations of amounts received over the counter or by direct bank transfers are being done on a monthly basis.*

In the alternative that the balance of \$1.46 million recorded in the general ledger was difficult to ascertain, an inherited issue of the former Public Service Commission, the MOE verified individual files that were maintained for the loans with the former Public Service Commission. We have individually verified the loan files and with documentation, can place that debt owed tentatively is around \$8.6 million. This is a fresh new balance for which we have files to correspond to.

The role of the collection of these loans have been entrusted to the Fiji Revenue Customs Service (FRCS) and two former staff for the Public Service Commission have also moved to FRCS. FRCS is assessing the files and instigating the collections accordingly. MOE and FRCS are working together further on this to ensure that debt is collected and recorded accordingly.

## **8.2 Concessional Loan to Public Rental Board not reflected in the Term Loan Receivable Account in 2011 – 2015**

Recording involves keeping accurate records of what has happened, what is owned and what is owed.<sup>58</sup>

Government is the principal borrower of the Housing Authority and the Public Rental Board loans amounting to FJD43.7M (CNY138, 560,329) and FJD 11.34m (CNY36, 000,000) respectively from the EXIM Bank of China which is On-Lent to these entities.<sup>59</sup>

The audit noted that Cabinet on 1 February 2011 approved that the Public Rental Board (PRB) reimburse Government for all debt related costs and fees associated with the Chinese Concessional Loan. However, the loan receivable was not recorded in the Lending Register or the FMIS general ledger for the past five years (2011-2015).

Explanation provided by the Ministry indicated that the non-disclosure was due to the financial instability of the entity. However, as shown in Table 8.3 and 8.4, the Public Rental Board was financially stable in the past four years.

**Table 8.3: Debt Ratio for the 4 year period**

Year	Total Liabilities (A) (\$)	Total Assets (B) (\$)	Debt Ratio (A/B)	Commentary
2016	13,612,933	35,239,378	0.39	PRB has a debt ratio of 0.39. Thus indicating that PRB has 2.5 times as many assets as it has liabilities. This is a relatively low ratio and implies that PRB will be able to pay back its loan.
2015	14,170,370	35,434,598	0.40	
2014	13,828,176	30,618,946	0.45	PRB has a debt ratio of 0.45. Thus indicating that PRB has 2.2 times as many assets as it has liabilities. This is a relatively low ratio and implies that PRB will be able to pay back its loan.
2013	4,745,982	9,076,368	0.52	PRB has a debt ratio of 0.52. That means that PRB has 1.9 times as many assets as it has liabilities. This is a relatively low ratio and implies that PRB will be able to pay back its loan.

**Table 8.4: Debt to Equity Ratio for the 4 year period**

Year	Total Liabilities (A) (\$)	Total Assets (B) (\$)	Debt Ratio (A/B)	Commentary
2016	9,274,604	21,626,446	0.43	For every dollar by owned by shareholders, the Public Rental Board owes \$0.43 to creditors.
2015	10,014,712	21,264,228	0.47	For every dollar owned by shareholders, the Public Rental Board owes \$0.47 to creditors.
2014	10,014,712	16,790,770	0.60	For every dollar owned by shareholders, the Public Rental Board owes \$0.60 to creditors.
2013	1,014,712	4,330,386	0.23	For every dollar of owned by shareholders, the Public Rental Board owes \$0.23 to creditors.

The anomaly was corrected through an audit adjustment of \$10,887,097 to the Term Loan Receivable balance as at 31 July 2016.

The above anomaly indicated that the Term Loan Receivable balance was understated for the past five years.

### Ministry's Comments

It should be noted that the Agreement with PRB is not a loan agreement but a cost recovery agreement, whereby the Board is required to reimburse Government for all debt related costs and fees. Due to PRB weak financial position during 2011-2015, they were not able to consistently reimburse government for payment it made on its behalf. PRB commence with repayment in 2016, thus we are in a firm position to record the outstanding loan with EXIM Bank of China as Term loan receivables at the end of July, 2016. In addition, the report should not make reference to the Debt Accounting Manual. There was no Debt Accounting Manual in 2011 to 2015, and the current draft Accounting Manual is yet to be endorsed. The sentence "the Ministry is not complying with the requirement of the Debt Accounting Manual" is wrong.

The Debt Accounting Manual was approved by the Minister. Following the approval, the PRB Loan was also registered as Term Loan Receivable as at end 31 July 2016. As highlighted earlier, the loan was not recorded earlier due to the Grace period of the loan was still effective. As per loan agreement, during grace period, the principal repayment is exempted until grace period lapses. At same time, the PRB was undergoing transformation and the financial position of the company was in precarious state. Since 2016, PRB has consistently reimbursed government for the payments it made towards the Low Cost Housing loan with Exim Bank of China.

### **8.3 Failure to Submit Loan Agreements for Audit Verification**

The loan agreements for the loan receivables of \$3.6 million was not provided for audit verification as at the date of audit. Refer to Table 8.5 for details.

#### **Table 8.5: Loan Agreements Not Made Available For Audit Verification**

Entity	Balance Outstanding as at 31/7/16 (\$)
I-taukei Affairs Board	1,700,000
Rewa Rice Ltd	1,900,000

In addition, the loan agreements for the loan receivables of \$5.09 million are currently being vetted by the Solicitor General's Office. Refer to Table 8.6 for details.

**Table 8.6: Loan Agreements Currently Vetted by Solicitor General's Office**

Entity	Date Amount Lent	Amount Lent <sup>64</sup> (\$)	Balance Outstanding as at 31 December 2012 (\$)	Movement (2012 - 2016) (\$)	Balance Outstanding as at 31/7/16 (\$)	Remarks
Viti Corps Company Limited	1999	3,700,000	3,189,667	---	3,189,667	No movement since 2011. Interest of 5% applies for late payment
National Trading Corporation Ltd	2001	2,900,000	2,900,000	1,000,000	1,900,000	In March 2003, Cabinet endorsed that NATCO wind up and all assets and liabilities including the \$2.9m loan be transferred to Food Processors Ltd. Contrary to the Cabinet approval, the \$1m was transferred to Batiri Orchards Ltd to complete the pending issues on NATCO liquidation. No repayment since 2007.

Entity	Date Amount Lent	Amount Lent <sup>64</sup> (\$)	Balance Outstanding as at 31 December 2012 (\$)	Movement (2012 - 2016) (\$)	Balance Outstanding as at 31/7/16 (\$)	Remarks
						Despite the Cabinet decision in 2003, the winding up has now taken 13 years and is yet to be finalised.
Total					5,089,667	

Moreover, the loan accounts of Rewa Rice Ltd, Viti Corps Company Ltd and National Trading Corporation Ltd accounts have been inactive since 2007, 2011 and 2014, respectively and there is uncertainty for recovery.

In the absence of loan agreements, the term and conditions of the loans is not known hence recovery is uncertain.

### **Recommendations**

The Ministry of Economy should:

- locate the loan agreements for I-taukei Affairs Board and Rewa Rice Limited;
- **I-Taukei Affairs Board-\$1.7m**

The loan agreement cannot be retrieved however ITaukei Affairs Board is committed in repaying the loan.

A revised draft loan agreement as **Appendix 8.1** (with existing conditions of the 1999 Loan Agreement) was discussed the Ministry and ITAB

A repayment of \$100,000 was receipted in January 2018 and the Debt Unit of the Ministry constantly following up the ITAB on the remaining loan balance.
- **Rewa Rice (Fiji Rice) - \$1.9m**

There was no loan agreement as a call on the guarantee becomes loan to the default entity as required by law under the Finance Act 1981 and Financial Management Act 2004. **Appendix 8.2**
- ensure that the loan agreements between Viti Corps Company and the Government is finalised on a timely basis;
  - Draft loan agreement is with Office of the Solicitor General for vetting. Memorandum attached as **Appendix 8.3**
- ensure that the liquidation of National Trading Corporation Ltd is completed and an amicable decision reached on the repayment of loan; and
  - The liquidation has been resolved in 2016/2017 financial year.
  - The draft loan prepayment agreement is currently with OSG for vetting. Memorandum attached as **Appendix 8.4**. The ministry is constantly following up with OSG on this matter.
- Review the operations of Rewa Rice Ltd and Viti Corps Company Limited and, determine the ability of the entities to repay the debts owed to Government.

### **Ministry's Comments**

Recommendations are noted.

This is a call on the Government Guarantee when Rewa Rice defaults on its loan obligations. There was no loan agreement as a call on the guarantee becomes loan to the default entity as required by law under the Finance Act 1981 and Financial Management Act 2004. Government paid a total of \$1.9 million loan on behalf of the company in 1998. The sum of \$1.9 million should be repaid by Fiji Rice to Government as it is still appearing in the



Lending Fund Account. The Ministry of Public Enterprise is currently in the process of restructuring the entity to make it profitable and sustainable.

ITaukei Affairs Board The loan agreement cannot be retrieved; however our records reveal that the loan was given through an agreement. This is the balance in the FMIS and ITaukei Affairs Board is committed in repaying this loan. Moving forward, a revised loan agreement will need to be developed with existing terms and conditions.

The revised draft loan agreement for Viti Corps is currently being vetted by SG's Office.

## 9.0 REVOLVING FUND ACCOUNT

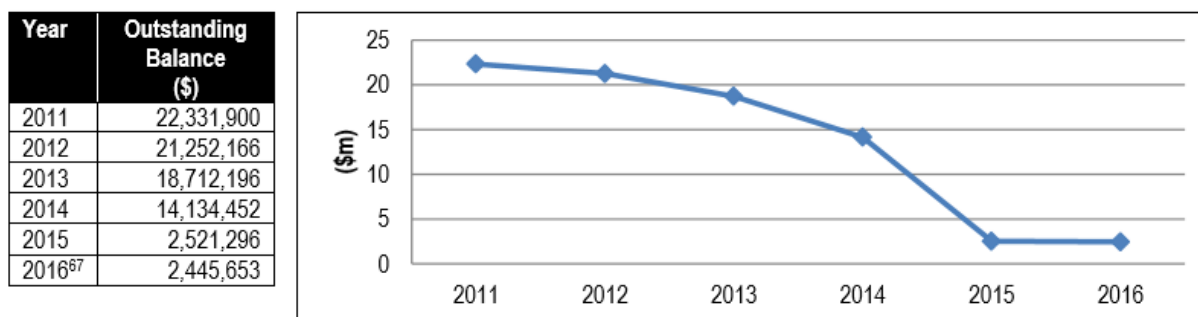
The Revolving Fund Account (RFA) include accounts receivable, prepayments, accounts payable, accrued income, deferred income, inter-departmental clearance accounts and imprest accounts.

Audit review of RFA across Ministries and Departments revealed several anomalies as detailed below. Accounts Receivable 9.1

An accounts receivables (or debtor) generally arise after a sale of goods or services where payment is not immediately received by government. It is important to have in place a stringent credit policy and debt recovery procedures to counter the risk of losses of irrecoverable debts.<sup>65</sup>

The accounts receivable balance as at 31 July 2016 was \$2,445,653, a decrease of \$75,643 or 3% from 2015.<sup>66</sup> The accounts receivable balance for the past 6 years is shown in Table 9.1 and Figure 9.1. The decreasing trend over the years was the result of write-offs made in 2014 and 2015.

**Table 9.1 and Figure 9.1: Trend of Accounts Receivables Balance**



### 9.1.1 Weaknesses in Internal Control - RFA

Audit review of internal controls pertaining to accounts receivables for Ministries and Departments noted the following weaknesses:

- Despite the write-off of debts undertaken by the Ministry of Economy in previous years, there were still 13 dormant receivable accounts totalling \$719,088. *Refer to **Appendix 9.1***

Agency	Amount	Economy Comments
Fiji Corrections Service(Fund 4)	\$ 20,841	This issue have been rectified. <b>Appendix 9.1</b>
Fiji Corrections Service (Fund 4)	\$ 4,810	
Fiji Corrections Service (Fund 4)	\$ 450	
Fiji Corrections Service(Fund 4)	\$ 2,634	
Fiji Corrections Service (Fund 4)	\$ 3,179	
Fiji Corrections Service (Fund 4)	\$ 2,672	
Fiji Corrections Service (Fund 4)	\$ 855	
Ministry of Fisheries and Forests (Fund1)	\$ 641,909	These are not actual debts but postings that the Agency fail to clear at the end of Financial year. They collect revenue on a cash basis and due to past practices post indirectly through AR. These outstanding are mostly due to human errors in posting through the AR. <b>Appendix 9.1a</b>
Ministry of Fisheries and Forests (Fund1)	\$ 1,894	
Ministry of Fisheries and Forests (Fund1)	\$ 33,536	
Ministry of Fisheries and Forests (Fund 4)	\$ 5,745	This issue have been rectified. <b>Appendix 9.1b</b>
Ministry of Health and Medical Services (Fund 4)	\$ 274	
Republic of Fiji Military Forces (Fund 4)	\$ 289	

**\$ 719,088**

- Three accounts receivable allocations had credit balances totalling \$46,296 contrary to the nature of the account.

Agency	Amount	Economy Comments
National Planning	(\$128.00)	Issue rectified. <b>Refer Appendix 9.2</b>
Bureau of Stats	(\$132.00)	
Housing	(\$46,035.98)	Ministry of Economy awaiting submission for GL adjustment by Department of Housing.
	<b>(\$46,295.98)</b>	

- The reconciliations for the accounts receivable balances of \$16,066 were not prepared during the year 2016. *Refer to Appendix 9.3*

Agency	Amount	Comments
<b>Fisheries &amp; Forestry</b>	\$5,745.00	Reconciliation not submitted from August 2017 and memo has been sent as per <b>Appendix 9.3</b>

Agency	Amount	Comments
<b>Lands and Mineral Resource</b>	\$24,225.00	Issue Rectified <b>Appendix 9.3a</b>
<b>Housing</b>	(\$46,036.00)	Ministry of Economy awaiting submission for GL adjustment by Department of Housing.
<b>(\$16,066.00)</b>		

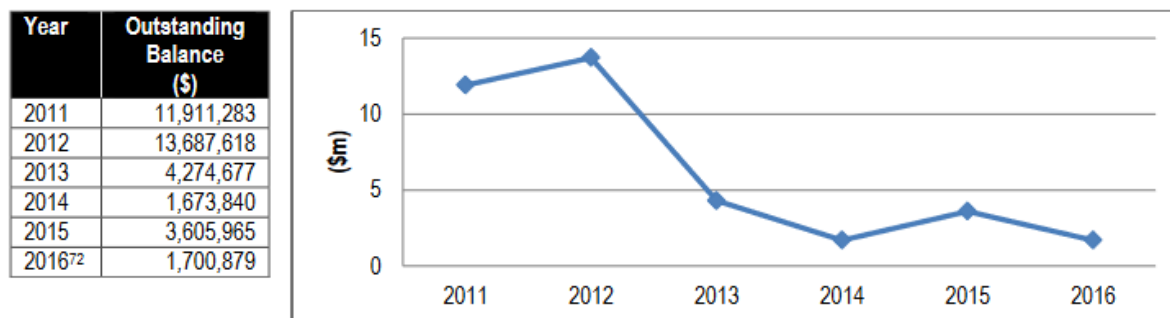
- There was a variance of \$237,888 between the FMIS general ledger and the reconciliations prepared by the Ministries and Departments.

Agency	Amount	Comments
<b>Fiji Corrections</b> A variance of \$27,700 exists between the overall TMA ledger balance against the TMA Debtors listings	\$27,700.00	Accounts receivable reconciliation has been initiated by the ministry to be submitted by Fiji Correction for which a debtor listing is requested as part of the submission.
<b>MoIT</b>	\$210,188.00	Reconciliation is up-to-date but variances is awaiting court decision. MoE is reviewing submission from MoIT on correction of books. <b>Appendix 9.4</b>
<b><u>\$237,888.00</u></b>		

## 9.2 Prepayments and Advance Account

Prepayments and advances comprise of recouped accountable advances paid to civil servants to facilitate official trips and accommodation for both domestic and overseas trips.

The prepayments and advance account had a balance of \$1,700,879 as at 31 July 2016, a decrease of \$1,905,086 or 53% from 2015.<sup>71</sup> Table 9.3 and Figure 9.2 shows prepayments and advances for the past 6 years. The decreasing trend over the years was the result of write-offs in 2014 and 2015.

**Table 9.3 and Figure 9.2: Prepayments and Advance Balance for Past Six Years**

### 9.2.1 Weaknesses in Internal Control

The Accounting Head of an agency is responsible to the Permanent Secretary for the effective design and operation of internal controls across the agency.

Travelling advances must be recouped within 7 days of the completion of travel by submission of a voucher with documents to support the claim. Where a travelling advance is not cleared within 7 working days of the completion of travel, recovery must be made from the concerned officer's salary within 6 fortnights.

All Permanent Secretaries and Head of Department are required to submit monthly reconciliations to the Ministry of Economy by the 15<sup>th</sup> of each month.

Audit review of controls pertaining to prepayments and advances for the Ministries and Departments noted the following weaknesses:

#### **Appendix 5.4.1: Prepayments and Advance Control Issues Raised from Ministries and Departments**

Ministries/Departments	Prepayments and Advances Controls Weaknesses Measured in Monetary Values				
	Reconciliation not prepared	Unsubstantiated Balance	Goods Procured from Advance Account	Recording Anomalies	Inadequate supporting documents
	(\$)	(\$)	(\$)	(\$)	(\$)
Office of the President			48,531		832,425
Ministry of Justice	5,326				
Ministry of Rural and Maritime			13,913		39,656
Ministry of Education				3,737	
Ministry of Agriculture		9,498			
Fiji Police Force		132,174			
<b>TOTAL</b>	<b>5,326</b>	<b>141,672</b>	<b>62,444</b>	<b>3,737</b>	<b>872,081</b>
<b>GRAND TOTAL</b>					<b>1,085,260</b>

- Reconciliations for prepayments and advance balances amounting to \$5,326 were not prepared during the year. **Appendix 9.5**

Ministries /departments	Prepayments and Advance Control Weakness Measured in Monetary Value
	Reconciliation not Prepared (\$)
Ministry of Justice - \$5,326	The issue has been rectified. <b>Appendix 9.5</b>

- The closing balance for prepayment and advance account of \$141,672 could not be substantiated due to errors in the July 2016 reconciliation. Refer to **Appendix 9.6** for details;

Ministries /departments	Prepayments and Advance Control Weakness Measured in Monetary Value
	Unsubstantiated Balance (\$)
Agriculture - \$9,498	The issue has been rectified. <b>Appendix 9.6a</b>
Fiji Police Force - \$132,174	The issue has been rectified. <b>Appendix 9.6b</b>

- Procurement of goods and services totaling \$62,444 was incorrectly facilitated from prepayments and advance account. Refer to **Appendix 9.7** for details;

Ministries /departments	Goods Procured from Advance Account (\$)
Office of the President - \$48,531	The issue has been rectified. <b>Appendix 9.7a</b>
Ministry of Rural & Maritime - \$13,913	Issue is not resolved.  The Ministry issued an Internal Circular (Appendix 9.7b) dated 06/11/2017 subject Procurement Regulations which covers competitive procurement, Issue of

	Purchase Orders and Tax Compliance Certificate and the breach of advance privileges. Way Forward- Ministries are continuously reminded during Trainings & Memos to adhere to Advance ( <b>Appendix 9.7c</b> )
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- Advances totaling \$3,737 was directly charged to expenditure account instead of being facilitated through the advance account. Refer to **Appendix 9.8** for details;

Ministries /departments	Recording Anomalies (\$)
Ministry of Education - \$3,737	The issue has been rectified.

- Journal adjustments to clear outstanding advance balance totaling \$872,081 could not be substantiated due to lack of supporting documents. Refer to **Appendix 9.7** for details.

Ministries /departments	Prepayments and Advance Control Weakness Measured in Monetary Value
	Inadequate Supporting Documents( \$)
Office of the President - \$832,425	The issue has been rectified. <b>Appendix 9.7a</b> provides documentation.
Ministry of Rural & Maritime - \$39,656	The issue is yet to be rectified. <b>Appendix 9.8a</b> provides documentation.

- Accountable advance totaling \$7,933 were retired to the wrong allocations  
Refer to **Appendix 9.9** for details.

Ministries /departments	Anomalies	Amount (\$)	FMIS Comments
<b>Ministry of Women, Children and Poverty Alleviation</b>	Incorrect recording of retirement of advance totaling \$2,256 between Department of Social Welfare and Department of Women advance account	2,256	<p><b>The issue is yet to be rectified.</b> This is due to mispostings by ministry officers since the ministry is operating two separate accounts for the two departments. Ministry is in the process of rectifying the issue by locating proper source documents to pass JV for adjustments <b>Appendix 9.9a</b> Way Forward- Ministry has been reminded through Accounting Heads meeting, training and emails to be vigilant when posting to those departments operating under one ministry.</p>
<b>Ministry of Infrastructure and Transport</b>	The ministry incorrectly cleared the accountable advance to the revenue allocations	957	<p><b>The issue is yet to be rectified.</b> These figures consists of full amount issued to officer together with 12% interest charged for late retirement of advances. In reality, only 12% interest should be charged to revenue whereas the actual amount issued as advance to be retired to SAG57 account. Matter has been referred to Accounting Head to pass proper adjustments. <b>Appendix 9.9b</b> Way Forward- Ministry has been reminded through training and emails on the accounting entries upon retirement of advances</p>
<b>Ministry of Sugar</b>	Several accountable advances issued for meals, subsistence and payment of airfare were charged to personal emoluments	4,720	<p>The issue is yet to be rectified. Accounts officer case was referred to FICAC <b>Appendix 9.9c</b> and awaiting court decision on recovery of advances.</p>





- Despite the write off of debts undertaken by the Ministry of Economy in previous years, There are still 10 dormant prepayments and advance account totaling \$123,558 as at 31 July 2016. Refer to **Appendix 9.10** for details.

Account	Ministry/Department	Amount (\$)	Status
1-36501-66101-570101	Ministry of Public Enterprise	30	The issue has been rectified. <a href="#">Appendix 9.10a</a>
1-20101-20999-570101	Fiji Police Force	114,921	The issue has been rectified. <a href="#">Appendix 9.10b</a>
1-08103-80401-570301	Ministry of Foreign Affairs	1,437	The issue has been rectified. <a href="#">Appendix 9.10c</a>
1-08103-80406-570301	Ministry of Foreign Affairs	1,669	
1-08103-81001-570301	Ministry of Foreign Affairs	146	
1-10101-10999-570301	Fijian Elections Office	2,162	The issue is yet to be rectified. This are carried forward balances from 2015 relating to advances issued. Accounting Head has been advised on the issue and adjustments to be made provided upon retirement made with proper documentations. <a href="#">Appendix 9.10d</a>
1-20102-20101-570301	Fiji Police Force	432	The issue has been rectified. <a href="#">Appendix 9.10e</a>
1-40103-40301-570301	Ministry of Infrastructure and Transport	500	The issue has been rectified. <a href="#">Appendix 9.10f</a>
1-40201-81101-570301	Ministry of Infrastructure and Transport	-4	The issue has been rectified. <a href="#">Appendix 9.10g</a>

Account	Ministry/Department	Amount (\$)	Status
1-22101-22999-570302	Ministry of Health and Medical Services	2,265	<p>The issue is yet to be rectified.</p> <p>This are carried forward balances from 2015 due to mispostings by the ministry. The figure relates to clearance of IDC balances by ministry. This issue has been referred to Accounting Head whom confirmed that they will look into the matter.</p> <p>Appendix 9.10h</p>

- Eight prepayments and advance accounts with credit balances totaling \$33,121 were noted contrary to the nature of account. Refer to **Appendix 9.11** for details; and

Prepayments with Credit Balances			Comments
1	1-33301-79101-570101	(\$39.00)	The issue has been rectified. <b>Appendix 9.11a</b>
2	1-15101-15999-570101	(\$47.26)	The issue has been rectified. <b>Appendix 9.11b</b>
3	1-32201-77101-570301	(\$470.00)	The issue is yet to be rectified. FMIS had identified this mispostings were made in period 06 & 07/2016. Thus, matter has been referred to Accounting Heads to pass proper adjustments in order to normalize the account. <b>Appendix 9.11c</b>
4	1-06201-70999-570301	(\$5,452.69)	The issue has been rectified. <b>Appendix 9.11d</b>
5	1-14101-14999-570301	(\$0.53)	The issue has been rectified. <b>Appendix 9.11e</b>
6	1-40201-81101-570301	(\$3.59)	The issue has been rectified. <b>Appendix 9.11f</b>
7	1-25101-25101-570301	(\$21,828.20)	The issue is yet to be rectified. These are carried forward balances from 2008 and prior years. Ministry has submitted request for GL adjustment to equity allocation which is under review by MoE. <b>Appendix 9.11g</b>
8	1-15101-15999-570301	(\$5,278.74)	OAG to confirm which allocation constitutes this figure of \$5,278.74. As per our analysis, we've noted that the ministry had a debit balance of \$664.59 in 2016 and not (\$5,278.74). Therefore, the ministry's ending balance is in line to the nature of the account of having a Debit balance for Assets account. <b>Appendix 9.11h</b>

- Other weaknesses in prepayments and advance accounts are highlighted in **Appendix 9.12**

Ministries / Departments	Anomalies in Prepayments	FMIS Comments
Office of the President	<p>*The office raised journal vouchers totaling \$832,425 to clear the outstanding balance. Bulk of this balance was carried forward from previous years. The journal vouchers were not adequately supported with source documents. The clearance of previous year balance of \$776,847 from the current year budgetary allocation would misrepresent expenditure in the Statement of Receipts and Expenditure</p>	<p>The issue has been rectified. Refer to <b>Appendix 9.7a</b></p>
Ministry of Foreign Affairs	<ul style="list-style-type: none"> <li>•The Ministry had an outstanding accountable advance of \$99,457.12 as at 31/07/16. Some of these accountable advances were outstanding from previous years.</li> <li>•Out of the \$76,315 advance paid and reviewed by audit, \$41,858 or 55% was neither recorded in the Advance register nor retired.</li> <li>•Ministry continues to issue advance to staff that have not cleared their previous advances.</li> <li>•The mispostings totaling \$7,244 from prior years are yet to be cleared from the Advance account.</li> </ul>	<p>The issue has been rectified. Accountable advance has been retired but not updated into the system. Majority of the advances for 2016 were retired and updated in the System as per attached listing. For other years, we are currently working on adjusting and rectifying these outstanding advances. Strict monitoring of accountable advances with a clear SOP is in place to guide the Finance Division Staff in its internal monitoring <b>Appendix 9.12a</b></p>

Ministries / Departments	Anomalies in Prepayments	FMIS Comments
Ministry of Civil Services	*Audit noted that the Ministry did not prepare and maintained any Advance (SAG 57) Reconciliation for the year 2016. Although the account had a nil ending balance, it was noted that postings were made to and from the account during the year.	The issue is yet to be rectified. One-off posting was made in period 06/2016 amounting to \$100.00 which was then cleared within the same period in 2016. Hence, ministry has confirmed that this issue arises as a result of lack of resources within the ministry. <b>Appendix 9.12b</b>
Ministry of Rural and Maritime Development and Disaster Management	<ul style="list-style-type: none"> <li>•Audit noted that outstanding accountable advance balances were not subsequently cleared. The outstanding balance as at 31/07/16 was \$62,516. Also, the Manager Finance did not initiate any recovery through salary deduction from the concerned officer's outstanding advance not retired within seven days.</li> <li>•The accountable advance register was not updated during the year.</li> <li>•The accountable advance reconciliations were not prepared in a timely manner.</li> </ul>	<p>The issue is yet to be rectified.</p> <p>The findings indicate lack of supervisory checks of the personnel responsible for timely retirement of advances &amp; preparing of reconciliations. The Ministry issues Advance Statements to officers to retire on time and those that do not comply and retired within the stipulated time faced penalties of salary deductions plus 12% interest.</p> <ul style="list-style-type: none"> <li>• A statement reminding the officers taking accountable advance is now issued once payment is received by the officer. <b>Appendix 9.12c</b></li> </ul>
Republic of Fiji Military Forces	*Audit noted that the total advances of \$39,242.31 was not cleared within seven days, as a result the expenditures has been understated	The issue has been rectified. <b>Appendix 9.12d</b>

Ministries / Departments	Anomalies in Prepayments	FMIS Comments
Fiji Police Force	<p>*Verification of the General Ledger (FMIS) records revealed that allocations 1-20101-20999-57010 and 1-20102-20101-570301 had debit balances of \$114,921 and \$432 respectively which had been carried forward from previous years. The audit was not provided with the breakdown details of these balances, as a result the corrections of the above balances could not be substantiated.</p>	<p><b>The issue has been rectified. Appendix 9.12e</b></p>
Ministry of Education, Heritage and Arts	<ul style="list-style-type: none"> <li>•A review of advances issued during the year revealed that advances totaling \$43,082 were not retired within seven days of the completion of travel without interest charged.</li> <li>•The advance totaling \$224,947 have not been retired as at 31/07/16. The aging of the Outstanding accountable advances indicates that \$170,077 of the advances were outstanding for more than 30 days.</li> <li>•Review of advances noted that advances totaling \$8,126 were partially retired. Advance of \$1,316 was not acquitted out of \$8,126 advance issued.</li> </ul>	<p><b>The issue has been rectified. Appendix 9.12f</b></p>

Ministries / Departments	Anomalies in Prepayments	FMIS Comments
Ministry of Women, Children and Poverty Alleviation	<ul style="list-style-type: none"> <li>•A review of advances issued during the year revealed that advances totaling \$15,409 were not retired within seven days of the completion of travel without interest charged.</li> <li>•The advances totaling \$73,160 were approved for payment even though the officers had not cleared their previous advances totaling \$21,822.</li> </ul>	The issue has been rectified. <b>Appendix 9.12g</b>
Ministry of Youth and Sports	Audit noted that the Ministry had an outstanding accountable advance totaling \$12,987 accumulated from 2011.	The issue is yet to be rectified. <b>Appendix 9.12h</b>
Ministry of Agriculture	<ul style="list-style-type: none"> <li>•The Advance Reconciliations were not prepared on time.</li> <li>•The Advance Register was neither updated nor was it properly detailed.</li> <li>•The opening advance balance as at 01/01/16 was \$10,029 out of which \$6,967 or 69.5% were outstanding from 2013.</li> </ul>	The issue has been rectified. <b>Appendix 9.12i</b>



Ministries / Departments	Anomalies in Prepayments	FMIS Comments
Ministry of Fisheries and Forests	<ul style="list-style-type: none"> <li>•The monthly reconciliations for prepayments for the month of Jan-July, 2016 were not submitted to the Ministry of Economy on a timely basis.</li> <li>•The advance totaling \$443,496.77 was not cleared within the stipulated seven days, hence causing expenditure for the year ended 31 July 2016 to be understated.</li> </ul>	The issue has been rectified. <b>Appendix 9.12j</b>
Ministry of Sugar	<ul style="list-style-type: none"> <li>•Travel advances were not acquitted with proper source documentation.</li> <li>•Several advances were still outstanding and acquittals records were not provided at all and are yet to be recovered from the Officer as at date of audit on 27/01/17.</li> <li>•Request for travel and claims were not properly justified and scrutinized hence additional claim of refunds were made to the officer upon return to the office.</li> <li>•Advance Register was not updated.</li> <li>•Advance Reconciliations not prepared monthly. Two reconciliations were only prepared for advance account (Jan -Apr 2016 &amp; May -Jul 2016). Reconciliations were not signed by Accounts Officer and Director Sugar.</li> <li>•Prepaid Expenditure Reconciliations not prepared monthly from Jan -May. Three reconciliations were only prepared for prepayments account (Jan -May 2016, June 2016 &amp; July2016). Reconciliations were not signed by Accounts Officer and</li> </ul>	The issue is yet to be rectified.

Ministries / Departments	Anomalies in Prepayments	FMIS Comments
	Director Sugar.	

Non-preparation of reconciliations, credit accountable advance balances, unsubstantiated balances and inadequate supporting documents to journal vouchers indicates the existence of weak controls and lack of proper supervisory checks.

Failure to retire advances within the financial year has resulted in the understatement of expenditure. On the other hand, clearance of prior years' advances from current year's budgetary allocation would misrepresent the expenditure in the Statement of Receipts and Payments.

### **Recommendations**

**The Ministries/Departments should ensure that:**

- **travel advances are recouped within 7 days of the completion of the travel or recovery must be made from the salary of officers concerned;**
- **the prepayments and advance reconciliations are prepared in a timely manner;**
- **the retirement of accountable advances are adequately supported; and**
- **Dormant accounts, credit balance accounts and unsubstantiated balances are Investigated and rectified.**

### **Ministry's Comments**

*Accounting Heads are always reminded in the Accounting Heads meeting the importance of proper control over Accountable Advances and are also reminded to seek clarification with Treasury or Policy unit as and when the need arises.*

*The issue of Accountable Advances is very well covered in respective Ministries and Departments Finance Manuals and FMs have been duly endorsed by respective PS's and Heads of Departments.*

*Section 59(1) of the Finance Instructions states that each agency must have in place a cost effective system of internal control which:*

- (a) Safeguards money and property against losses;*
- (b) Avoids or detects accounting errors; and*
- (c) Avoid unfavorable audit reports.*

*Permanent Secretaries given their roles as Chief Accounting Officers for their respective departments must ensure that proper internal controls are maintained at maintained at all times.*

### **Accountable Advance Retired to Wrong Allocations**

*The Ministries should be answerable to this as responsibility of the use of advance account lies on them. Going forward one FMIS officer has been assigned to specifically monitor 57 and make sure that all accounts remain in debit, any Credit balances will be investigated and adjusted accordingly by officer upon clearance from the Ministry concerned.*

#### Dormant Prepayments and Advance Accounts

*These dormant accounts include balances from 2013, 2014 and 2015. MoE through FMIS carried out 3 consecutive write-off exercise for those three years. Ministries had the opportunity to clear off dormant accounts which were unaccounted but some failed to take advantage of this opportunity. FMIS therefore undertook this exercise by working on submitted documents from Ministries and also those within our scope of understanding. Ministries should be answerable to this.*

### **9.2.2 Impact of Misstatement on Prepayments and Advance Balances**

The Prepayments and Advance balance of \$1,700,879 as at 31/7/16 was misstated in view of the following errors and omissions. Refer to Table 9.4 for details.

**Table 9.4: Details of Misstatement**

<b>Errors and Omissions</b>	<b>Amount (\$)</b>
Journal vouchers not adequately supported	872,081
Credit Balances in advance account	27,755
<b>Total</b>	<b>899,836</b>

The impact of misstatements totaling \$899,836 or 53% of the total prepayments and advance balance in the 2016 accounts is substantial. As such, audit could not ascertain the accuracy, existence and the completeness of the prepayments and advance account.

#### **Recommendation**

**Ministry of Economy in consultation with Ministries/Departments should ensure that prepayments and advance balances are properly reconciled and errors and omissions highlighted above are investigated and rectified.**

#### **Ministry's Comments**

##### Journal vouchers not adequately supported

*Ministries should have policies of internal controls which ought to accommodate the provision of providing supporting documents for JVs.*

**Credit Balances in advance account (Refer to Appendix 9.11 above)**

<b>Allocation</b>	<b>Prepayments with Credit Balances (\$)</b>	<b>Comments</b>
1-32201-77101-570301	(470)	FMIS had identified this postings were made in period 06 & 07/2016. Department to initiate adjustment in 2017.
1-06201-70999-570301	(5,453)	FMIS had identified that this allocation had credit balance in 2015 and balances had accumulated until 2016. Department to initiate adjustment in 2017.
1-40201-81101-570301	(4)	FMIS had identified that this was due to misposting passed in period 07/2013. Department to initiate adjustment in 2017.
1-25101-25101-570301	(21,828)	FMIS has visited them to hear their side of the story on this credit figure. Department to initiate adjustment in 2017.
<b>Total</b>	<b>(27,755)</b>	

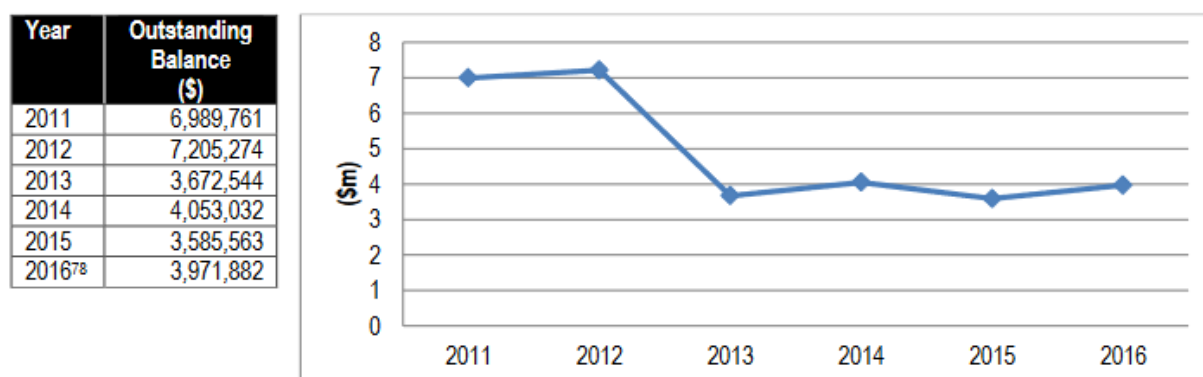
<b>Errors and Omissions</b>	<b>Amount (\$)</b>	<b>FMIS Comments</b>
Journal vouchers not adequately supported	872,081	The issue has been rectified. <b>Appendix 9.7</b>
Credit Balances in advance account <b>Refer to Appendix 9.11</b>	470	The issue is yet to be rectified. FMIS had identified this mispostings were made in period 06 & 07/2016. Thus, matter has been referred to Accounting Heads to pass proper adjustments in order to normalize the account.
	5453	The issue has been rectified.
	4	The issue has been rectified.
	21828	The issue is yet to be rectified. These are carried forward balances from 2008 and prior years. Concerned Ministry has submitted request for equity adjustments which is under review by MoE.

### 9.3 Inventory

Inventory purchasing, storage and recording should be efficiently managed to ensure that there is a sufficient level of inventories when needed, while minimizing the cost of holding inventory and the risk of stock becoming obsolete or damaged.

The inventory account had a balance of \$3,971,882 as at 31 July 2016, an increase of \$386,319 or 11% from 2015. Inventory is measured at cost. Table 9.5 and Figure 9.3 shows inventory balance for the past 6 years.

**Table 9.5 and Figure 9.3: Inventory Balance 2011 - 2016**

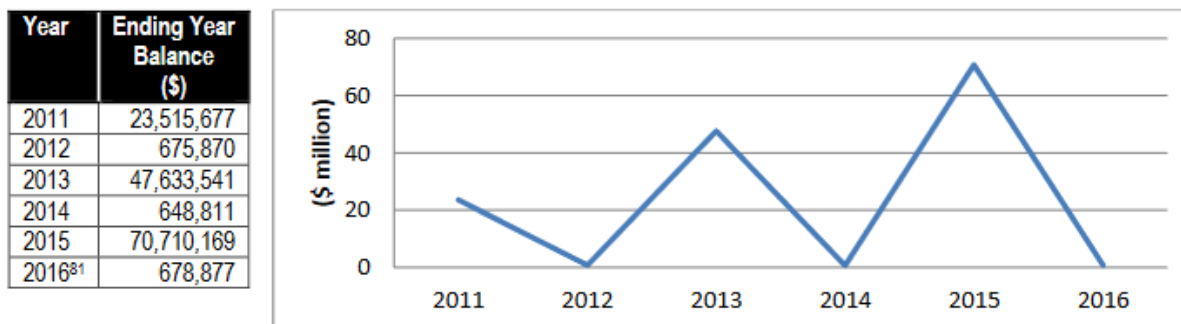


### 9.4 Accounts Payable

A liability is defined as present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. A liability shall be classified as current when it satisfies any of the following criteria:

- (a) It is expected to be settled in the entity's normal operating cycle;
- (b) It is held primarily for the purpose of being traded;
- (c) It is due to be settled within twelve months after the reporting date; or
- (d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

The accounts payable had a balance of \$678,877 as at 31 July 2016, a decrease of \$70,031,292 or 99%. Table 9.7 and Figure 9.4 shows accounts payable for the past six years.

**Table 9.7 and Figure 9.4: Account Payable Balance for the Last 5 Years**

#### 9.4.1 Weaknesses in Internal Control

- Funds totaling \$36,767 in SLG 84 was allocated to Ministry of I-iTaukei Affairs for the purchase of new office equipment. However, the Ministry used \$12,794 to pay National Employment Center employees' wages.

This relates to payment of allowances for attaches employed under the National Employment Centre involved in project works.

##### Way Forward

MoE has agreed on some improved processes to help eliminate the above issue:

- Project Acquittals to be attached with monthly reconciliation
- Checklist to be implemented
- Details of funds utilized to be justified.
- A variance of \$100,519 was noted between the Ministries and Department's reconciliation and the FMIS general ledger.

Refer to Appendix 9.15

Ministries/Department	Amount	Variances	Comments
Fiji Military Forces	52,321	52,321	The issue has been rectified.
Department of Housing	10,555	10,555	Issue yet to be rectified
Ministry of Fisheries & Forests	20,784	20,784	Issue yet to be rectified

Ministries/Department	Amount	Variances	Comments
Local Government		16,789	Issue yet to be rectified
	118485		

- The Ministry of Local Government, Housing and Environment did not provide reconciliations for Fund 9 SLG 84 account which had balance of \$10,127. **Rectified** **Appendix 9.14** shows the clearance.



- Supporting documentation for accounts payable totalling \$134,083 were not provided for audit verification. **Refer to Appendix 9.15**

Ministries/Department	Amount	Variances	Comments
Fiji Military Forces	52,321	52,321	It is to be noted that this variance is only from the first reconciliations conducted on the Accounts. The final amount has not been determined yet and which is supposed to be then subjected to audit. The reconciliation for the final account which has been closed has no variance. <b>Appendix 9.15b</b>
Department of Housing	10,555	10,555	Way Forward- Ministry has been reminded through Accounting Heads meeting, memos, trainings, and emails on the need to comply to advance procedures as stipulated under section 44 of the Finance Instruction 2010. <b>Appendix 9.15b</b>
Ministry of Fisheries & Forests	20,784	20,784	This relates to the inappropriate usage of project funds provided under SLG84. The acting PS has instructed that funds are to be used for a purpose intended, and has introduced checklist whereby staff must identify the source of funds and the account balance when requested for funds to be expended. <b>Appendix 9.15c</b>
Local Government	118,485	16,789	Way Forward- Ministry has been reminded through Accounting Heads meeting, memos, trainings, and emails on the need to comply to advance procedures as stipulated under section 44 of the Finance Instruction 2010.
Public Enterprise	15,598		The queried amount of \$15,598.30 was a transfer figure from Head 4 to Head 36. This issue was sorted by the ministry through proper JV with supporting documents.

- There are four dormant accounts payable account amounting to \$27,763.

Accounts Payable					Comments
1	4-40251-91011-840101	Ministry of Infrastructure and Transport	(27,053.00)	(27,053.00)	This issue has been rectified in 2017. Refer to Appendix 9.16
2	4-40258-91011-840101	Ministry of Infrastructure and Transport	(90.00)	(90.00)	
3	1-40104-40491-840602	Ministry of Infrastructure and Transport	(120.00)	(120.00)	Yet to be rectified These are dormant balances relating to mispostings of Provisional Tax charged to Projects that are supposed to be charged to SEG13 instead of SLG84 account. Ministry was able to pass proper adjustments in 2017 to regularize the account.
4	1-40601-41999-840602	Ministry of Infrastructure and Transport	(500.00)	(500.00)	

There five accounts with debit balances totaling \$77,393 which was contrary to the nature of the account. This has understated accounts payable by the same amount as at 31/07/16.

Account	Ministry/Department	Amount (\$)	Status
1-37101-37999-840602	Ministry of Local Government, Housing and Environment	46,394	Yet to be rectified. This figure relates to manual payment of Provisional tax made in July 2016. Inadequate staffing in Accounts was an attributing factor hence, Accounting Head has been advised to pass proper adjustment to normalize the account.
1-10101-10999-840602	Fiji Elections Office	2,198	Rectified.
1-19101-19999-840602	RFMF	249	Rectified.
1-20101-20999-840602	Fiji Police Force	17,997	Yet to be rectified. Balance relates to mispostings that was supposed to hit SEG13 made by the ministry in 2016. This is referred to as misallocation by the ministry. Accounting Heads reminded to pass adjustment of the same from SLG84 to VAT allocation. Appendix

Account	Ministry/Department	Amount (\$)	Status
			9.16a
1-23101-23999-840602	Department of Housing	10,555	Yet to be rectified This figure relates to excess payment made in July 2016.

### Way Forward:

Mispostings has been identified as one of the reoccurring issues which ministries and departments are not considering when passing adjustments/reversals. Delay or Failure to tackle this issue would lead to contradicting balances, imbalances within accounts and most of all grounds for favorable audit opinion.

Hence, ministries & departments are continuously advised during the Accounting Heads meeting, trainings, memos and emails to be more vigilant as and when adjustments are passed not to be an issue in other accounts.

- Other weaknesses in accounts payable is detailed in **Appendix 9.17**

Ministry/Department	Anomalies	Comments
Ministry of Fisheries & Forests	Monthly reconciliations for accounts payable for the month of Jan-July, 2016 were not submitted to Ministry of Economy on timely basis. Only one reconciliation was prepared for accounts payable for the 7 months.	Staffing issue and lack of reconciliation knowledge has been a contributing factor in reconciliations being submitted late or no submission at all. With quality training conducted by MOE, ministry's reconciliations has been forthcoming in the current financial year and is in accordance to the required standard stipulated under Finance circular 02/2013.
Ministry of Lands & Mineral Resources	Reconciliations for accounts payable were not prepared in a timely manner with withholding tax payable not actually prepared.	After facing issues with lack of staffs, ministry has since updated all their reconciliations on a monthly basis in a timely manner. Recons are submitted to Management as an internal control measure initiative that the ministry has adopted to comply with the Finance manual.
Ministry of Education, Heritage & Arts	Two payees have multiple vendor identification in the FMIS general ledger which poses risk of double payments and misappropriation of funds.	MoE is aware of this issue and will have to assess the matter in view of centralizing the vendor creation.

The findings indicate lack of proper recording, reconciliation and clearance of SLG 84 accounts.

### **Recommendations**

The Ministries/Department should ensure that:

- Accounts with debit balances are investigated and rectified;
- Accounts payable are settled on timely basis;
- Balances in SLG 84 accounts are cleared; and
- Supporting documents are maintained properly and provided for audit verifications.

## **Ministry's Comments**

*Spending or non-spending of SLG 84 are at the discretion of ministry and departments which are to be returned to the Ministry of Economy at the end of the financial year.*

*Ministries and departments are to explain the variance in the reconciliation reports, hence the objective of any reconciliation report.*

*This Ministry of Housing is to be questioned as to why the report was not submitted. These balances are withholding tax payable to FRCA and to nil off once payment is made to FRCA.*

*Ministry to be questioned to provide explanation of the missing payment documents.*

*Ministry to transfer balance to active and correct withholding tax account before account is deactivate and payments to be made to FRCA. Ministry to do reconciliation and transfer credit to these allocations to nil off the debit balance.*

### **9.4.2 Impact of Misstatement and on Accounts Payable Balance**

The Accounts Payable balance of \$678,877 as at 31/7/16 has been misstated in view of the following errors and omissions:

**Table 9.8: Details of Misstatement**

<b>Account Area</b>	<b>Amount (\$)</b>
Supporting documents not provided	134,083
Reconciliations not prepared	10,127
Variance between FMIS Ledger and Ministry's Reconciliation	34,671
Unauthorized Use	12,794
Debit Balances	77,394
<b>Total</b>	<b>269,069</b>

The impact of misstatements totaling \$269,069 or 40% of the total accounts payable balance in 2016 accounts is substantial. As such, audit could not fully ascertain the accuracy and the completeness of accounts payable account.

[Refer to 9.4.1 for details and responses on the above table.](#)

## **Recommendations**

- Ministry of Economy in consultation with Ministries/Departments should ensure that accounts properly reconciled and errors and omissions highlighted are investigated and rectified.
- Supporting documents are maintained properly and provided for audit verifications.

## **Ministry's Comments**

### Supporting documents not provided

PSs through their Accounting Heads are responsible for maintaining proper documentations of all underlying transactions as per section 59(1) of the FI.

### Reconciliations not prepared

FMIS did not receive any submissions from MLGEH despite constant follow ups and this was basically due to staffing issue following the suspension of all of the Ministry's accounts officers. Going forward, the team had a meeting with DS Julia Korovou last week wherein we had agreed to assist in the updating of all of their reconciliations. At this point in time, only two clerical officers are manning the whole operation i.e. for Local Government & Environment (Head 37) and Housing (Head 23).

### Variance between FMIS Ledger and Ministry's Reconciliation

Details of the full variance are provided in a separate table below.

*Variance between FMIS ledger and Reconciliation – Details of \$87,062 are as follow:*

<i>Housing</i>	<i>11,185.24</i>	<i>No Submission received by FMIS due to staffing constraints</i>
<i>Youth and Sports</i>	<i>2,702</i>	<i>Reconciliation submissions are in order. However OAG queried that Ministry failed to deduct provisional tax of 5% on contractual payment of \$54,045 – this is an accounting and not a reconciliation issue – Youth and Sports should be held responsible.</i>
<i>Fisheries and Forest</i>	<i>20,784</i>	<i>No reconciliations received from the Agency.</i>

### Unauthorized Use

Budget Division receives acquittals on project funds. Whilst we receive reconciliation submissions from the Ministry, we are in no position to correctly ascertain whether funds were used for the purpose it was given as we do not have access to the detailed payment vouchers. Hence Budget should advise Ministry for reversal of the same.

### Debit Balances

The Ministries should be answerable to these overdrawn accounts. We had in so many occasions raised this issue with the Ministries and had requested for adjustments of the same. Going forward, one officer has been assigned to specifically monitor all 84 funds and make sure that all accounts remain in credit, any debits balances will be investigated and adjusted accordingly by officer upon clearance from the Ministry concerned.

Overdrawn Balances -Details of the \$77,394 are as follow:

<i>1-37101-37999-840602</i>	<i>46,393.70</i>	<i>FMIS had identified that this was due to miss- posting of \$46,393 passed in 2016, Department to initiate adjustments in 2017</i>
<i>1-10101-10999-840602</i>	<i>2,198.10</i>	<i>FMIS had identified that this was due to miss- posting of \$2,198.10 passed in 11/2016, Department to initiate adjustments in 2017</i>
<i>1-19101-19999-840602</i>	<i>249.13</i>	<i>Dormant balance, Department to initiate adjustments in 2017</i>
<i>1-20101-20999-840602</i>	<i>17,997.42</i>	<i>Dormant balance plus some movements in 2017, Department through the assistance of FMIS to review process and initiate adjustments in 2017</i>
<i>1-23101-23999-840602</i>	<i>10,555.24</i>	<i>FMIS had identified that this was due to miss- posting of passed in 2016, Ministry to initiate adjustments in 2017</i>

Refer to 9.4.1 for details and responses on the above table.

## 9.5 Follow up on Previous Years Issues

During the 2016 audit, the status of the matters reported in the previous year was followed up. These matters have remained outstanding as actions are yet to be taken by the Ministries to resolve them. The status of the outstanding issues is set out in Table 9.5 below.

**Table 9.5 Recurring Issues**

Issues	Recommendations	Management's Proposed Action/Comments	Current Status
<p><b>Non Disclosures of Accounting Policies adopted in Valuing Inventory as per IPSAS 12 - Inventory</b></p> <p>The Whole of Government financial statements only showed the ending balances of inventories. It failed to disclose the accounting policies adopted in measuring inventories including the cost formula used.</p>	<ul style="list-style-type: none"> <li>The Ministry of Economy should consider drafting and adopting clear accounting policies, valuation methods, write off policies, provisions for obsolescence and developing supporting schedules that can provide accurate information on the value of inventory at any given time.</li> <li>The Ministry should disclose on the financial statement the valuation methods and accounting policies adopted for accountability and transparency purposes and for the benefit of users of the financial statement.</li> </ul>	The Ministry of Economy is working on developing policy with regards to accounting for inventory.	Open
<p><b>Non Compliance to Finance Instruction 2010 on Valuation of Inventories</b></p> <p>The audit noted that there was no assessment of net realizable value of the inventories held by Government as at 31/07/16. Discussions revealed that inventories are recorded at cost.</p>	The Ministry must work towards ensuring that an assessment of net realizable value or current replacement cost is done to certify that the future economic benefits to be realized from the sale, exchange, distribution or use are accurately determined.	Once proper accounting policy for inventory is in place, it should be able to address the valuation methodology accordingly.	Open
<p><b>Unsubstantiated Inventory Balance and Ineffective Inventory Management System</b></p> <p>The audit noted that \$35,351 or 1% of the total inventory disclosed in the financial statement cannot be substantiated for its accuracy and completeness.</p> <p>The stock listing to support the inventory was not provided for audit verification.</p> <p>In addition, the government lacks an effective inventory management system. Currently all stores use tally cards to update inventory movements in the year. Any obsolescence and</p>	<p>The Ministry should consider:</p> <ul style="list-style-type: none"> <li>establishing a programme of regular stock takes and for entities that hold significant balances of inventory to provide assurance that balances held in inventory at any given time are accurate;</li> <li>training stock taking staff so that they are adequately skilled to identify evidence of obsolescence or damage;</li> <li>acquiring an effective computerised inventory management system interfaced with purchasing, accounts payable and accounts receivable systems to ensure that all inventory movements are reflected in the general ledger.</li> </ul>	The Ministry of Economy is in the process of trying to introduce the FMIS Inventory Module for TMA's.	Open

Issues	Recommendations	Management's Proposed Action/Comments	Current Status
damage will only be determined after the stock take at year end after which the general ledger is then updated.			

## **Ministry's Comments**

*Non-financial asset policy has just been endorsed by PS Economy and we will be happy to provide a copy of the policy to OAG should they require. Appendix*

*The policy approved by Permanent Secretary of Economy is for non-financial assets and its scope covers inventory measurement and valuation as well*

*Please note that Inventory Module is not available on FMIS and has not been introduced for TMAs. The AMMU team is currently working on rectifying current issues before a detailed assessment can be undertaken on the pros and cons of an inventory module.*



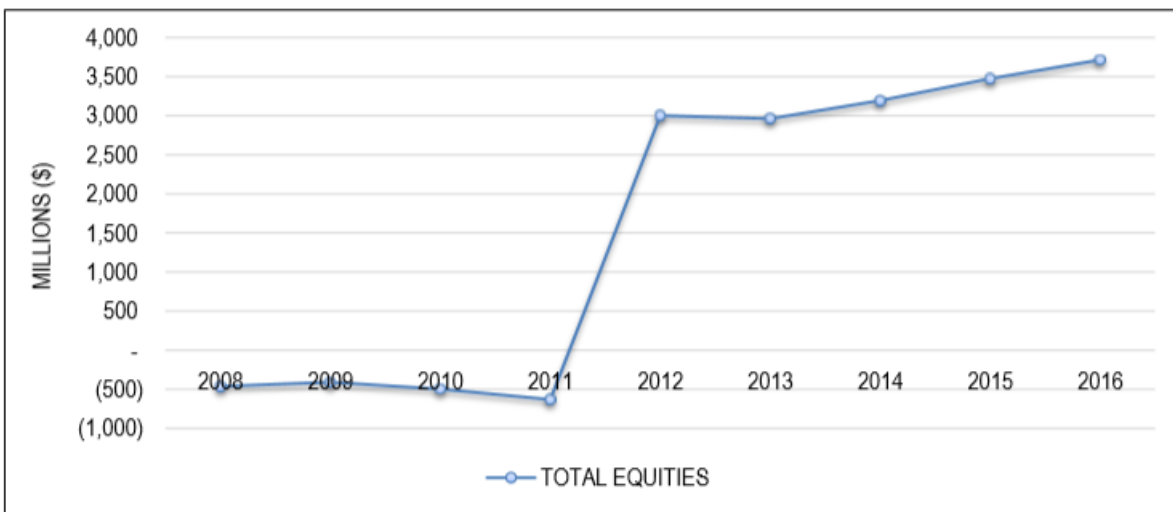
## 10.0 EQUITY

The following anomalies were noted from an audit review of the Equity account as at 31 July 2016:

- The net assets/equity had a debit balance of \$3,704,413,827. Figure 13.1 shows that net equity has been increasing since 2014.

**Debit balance is fine as the current status is deficit.**

**Figure 13.1: Equity Balance Trend Analysis**



Included in the net equity balance of \$3,704,413,827 is an amount of \$2,815,628,625 which was brought forward from 2012. The accuracy and valuation of the \$2,815,628,625 equity balance cannot be ascertained as the balance was not supported. This was included as a qualification in the 2012 audit report.

In addition, supporting documents was not provided for Fund 1 “TMA Accumulated Surplus” (SLG 94) of \$3.5 million.

We note the concern raised. A lot of the balances are inherited balances from the previous systems. A review of the FMIS systems is in the process and data cleansing is one of the exercises for the review of the system. However, this will be undertaken through a thought-process prior to any data cleansing exercise.

**2012 audit comment:*****Equity***

The correctness and existence of the opening equity balance amounting to \$2,815,628,265 cannot be verified as there is no schedule to adequately support these balances at Whole of Government level which is inclusive of accumulated surplus deficits [SLG 91] and Appropriation TMA operations [SLG 94].

Acct	1-04102-04202-940465	Type	2	Status	I
Desc	TMA ACC SURP-SUPPLIES	Fiscal set	A	Year	2007
Currency	FJD	Cum type	S	DR/CR Code	
View totals	<input checked="" type="checkbox"/> (Y or N)	Net change	3,500,000.00-		
Per/Yr	Journal	Amount	JOURNAL DESCRIPTION		
01/2007	04A033	3500,000.00-	RR005/01		

1-04102-04202-940465	\$ (3,500,000.00)	RR005/01	TMA ACC SURP-SUPPLIES
1-04102-04202-230316	\$ (215,579.32)	RR005/01	DEPARTURE TAX
1-04102-04203-861307	\$ (2,919.65)	RR005/01	264 PD HOME FINANCE CO
1-04102-04202-520401	\$ 3,718,498.97	RR005/01	BSP SUVA

Supporting documentation for the “Adjustments of errors underlying account” balance of \$893,663 was not provided for audit verification.

We are reviewing the extraction of balances when preparing for the Whole for the Whole of Government accounts on the cash based IPSAS. We can confirm provisionally that no such balance is in the 31 July 2017 accounts.

The transfer of excess cash of \$457,468.71 from the TMA operations to the Consolidated Fund Account (CFA) was not recorded in the Ministry of Agriculture Equity General Ledger (SLG 94).

The Asset Management & Monitoring Unit in monitoring the Whole of Government TMA processes reminds TMAs on the need to fully comply with the necessary financial regulations. (FMA 2004, FI 2010 & TMA policy 2015). The Ministry of Economy can only offer advice to the respective TMAs and adherence to recommendations made is the prerogative of the TMA. In the monitoring of TMA bank reconciliations by the Asset Management and Monitoring Unit, the Ministry of Agriculture (MoA) was advised that their Bank reconciliation GL balance was incorrect. MoA have made necessary adjustments as per **Appendix 10.1**

The above findings indicate that FMIS General Ledger balances was not properly reviewed by the Ministry of Economy to ensure the correctness of the Equity balances disclosed in the Statement of Changes in Equity. As such, audit could not ascertain the existence, valuation and completeness of the Equity balance of \$3,704,413,827.

### **Ministry's Comments**

*The Ministry of Agriculture's TMA team has been advised to pass adjusting entries to reflect the movement in equity. The Asset Management and Monitoring Unit (AMMU) will strongly monitor all excess cash remittances to ensure that the correct postings are passed.*

*The FMIS unit is responsible for the closing of Accounts every end of the financial year and one of the process is the closing of the book which involves the transfer of profit and loss to equity.*

*The processes are as follows:*

- *Download of each Fund 1, 4 & 9 Balance Sheet items by head level to identify whether it is a loss or profit.*
- *When there is a credit in BS: the balance will be credited to SRG 199101 and debit to SLG 910101 of the respective Head and vice versa for debit (Each individual Ministries should have an Equity account).*
- *Journals used for the extraction and postings are available here in FMIS for their view.*

*Apart from profits and loss, we also use equity accounts to adjust prior years` stale cheques and errors.*

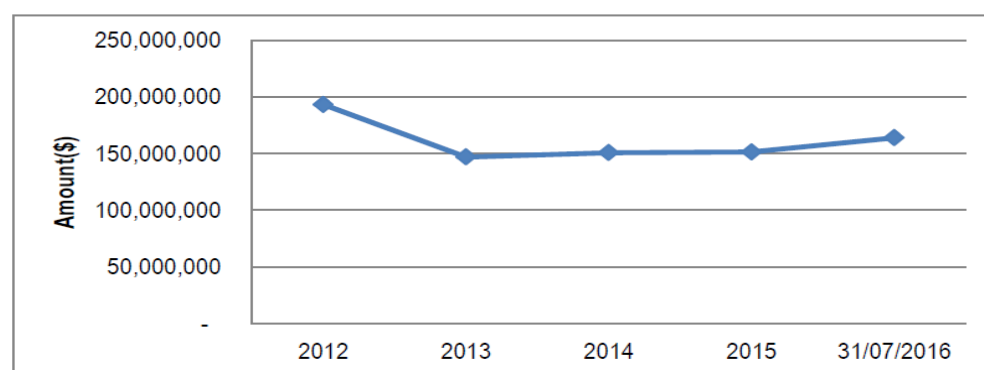
## 11.0 ARREARS OF REVENUE

### 11.1 Fluctuating trend of arrears of revenue for the last 5 years

The arrears of revenue as at 31 July 2016 was \$163,930,966, an increase of \$12,504,410 or 8% from 2015 arrears of revenue of \$151,426,556.

Figure 11.1 shows the trend of debts owed to government over the last 5 years.

**Figure 11.1 Arrears of Revenue from 2012 to 31st July 2016**



The high level of arrears of revenue is attributed to a substantial amount of outstanding tax arrears owed to Fiji Revenue and Customs Authority and the increasing amount of fees and charges due to Public Utilities (Water Authority of Fiji) and Ministry of Infrastructure and Transport.

### **Appendix 11.1 - Arrears of Revenue Return Report (WAF and Judicial Department)**

### 11.2 Anomalies in Statement of Arrears of Revenue

The audit noted the following anomalies in the disclosure of arrears of revenue:

- Contrary to the Financial Management (Amendment) Act 2016, majority of the quarterly arrears of revenue report submitted to the Ministry of Economy were as at 30th June, 2016 instead of 31st July, 2016. Refer to Table 11.1 for details.

**Table 11.1: Quarterly arrears of revenue report as at 30th June 2016**

<b>Government Agencies</b>	<b>Amount (\$)</b>
Agriculture	27,209
Auditor-General	147,115
Communications	7,539,752
Fiji Revenue & Customs Authority - Customs	10,254,926
Fiji Revenue & Customs Authority - IRD	69,292,149
Fisheries & Forests	11,559
Government Printing and Stationery Department	644,892
Health	398,212
Information Technology & Computing Services	995
Industry and Trade	2,616
Judicial	13,461,155
Education	9,621
Overseas Peacekeeping Missions	1,784,424
Police	4,446
Public Utilities(Water Authority of Fiji)	32,936,249
Solicitor General' s Office	2,998
<b>Total Arrears of Revenue</b>	<b>136,518,318</b>

- A total of \$777,106 was written-off by the Ministry of Agriculture without the prior approval from the Ministry of Economy. In addition, there was no evidence provided by the Ministry to confirm that the Minister of Economy had delegated the powers to the Ministry to write off the arrears of revenue.
- Contrary to the Finance Instructions, three Ministries and Department did not submit the quarterly arrears of revenue report to the Ministry of Economy. Refer to Table 11.2 for details.

**Table 11.2: Details of quarterly reports not submitted to Ministry of Economy**

<b>Government Agencies</b>	<b>Revenue Type</b>
Ministry of I-taukei Affairs	Registration
Ministry of Defence, National Security and Immigration	License security industry
Ministry of Local Government, Housing and Environment	Town Planning Fees

- The quarterly arrears of revenue reports were not prepared in accordance with the standard format reporting requirements stated in the Finance Manual. Consequently, supporting documentation was not sufficient to substantiate the outstanding amount. Refer to Table 11.3 for details.

**Table 11.3: List of Government Agencies**

No	Government Agencies	Amount (\$)
1.	Communications	7,539,752
2.	Education	9,621
3.	Fiji Revenue & Customs Authority - Customs	10,254,926
4.	Fiji Revenue & Customs Authority - IRD	69,292,149
5.	Economy(Pensions Office)	110,545
6.	Health	398,212
7.	Information Technology & Computing Services	995
8.	Solicitor General' s Office	2,998
9.	Fisheries & Forests	11,559
10.	Lands	20,778,013
11.	Overseas Peacekeeping Missions	1,784,424

The above findings indicate non-compliance with the requirements stipulated in the Financial Management (Amendment) Act 2016, Finance Instructions 2010 and Finance Manual. As such, audit could not ascertain the accuracy and the completeness of the arrears of revenue disclosed in Note 32 of the Whole of Government Financial Statements.

#### Ministry's Comments

Ministries and Departments have been advised on the change in financial year and to submit their quarterly arrears of revenue report in line with the new financial year. In 2016-2017 financial year, most Ministries/Agencies are submitting their quarterly arrears of revenue report using the new financial year.

The Ministry of Economy continues to monitor the arrears of revenue by way of ensuring quarterly reports are submitted on time and Agencies implement stronger recovery mechanism. In addition MOE meets with agencies to verify status of arrears, recovery tools and reconciliation of accounts are undertaken on quarterly basis. Agencies are also reviewing their costs recovery procedures and are allocating resources accordingly in an effort to reduce arrears and further minimize escalation of arrears. The responsibility of respective Chief Accounting Officers in each ministry that is Permanent Secretary is to ensure the reduction of arrears on annual basis. MOE only supports request for write-off from Minister and Cabinet when all recovery avenues have been exhausted.

### **11.3 Follow Up On Previous Year Issues**

During the 2016 audit, the status of the matters reported in the previous years was followed up. These matters have remained outstanding as actions are yet to be taken by the Ministries to resolve them. The status of the outstanding issues is set out in Table 11.4 below.

Issues	Recommendation	Status	Proposed Action/Comments
<p>The following anomalies were noted:</p> <p>(i) The audit noted that debt owed to Ministries and Departments for more than five years amounted to 37,584,966 or 25% of the total arrears. Although some Ministries/Departments have indicated in the past that write offs would be pursued, this is yet to occur. Resource constraints have also been indicated as one of the reasons contributing to delay in recovery of arrears.</p> <p>(ii) The Ministry of Economy-Pension, Judiciary, Agriculture and Infrastructure had more than 50% of their respective total arrears aging more than five years. Entities included the Fiji Police Force (43.8%), Water of Authority (36.9%), Ministry of Infrastructure (35.5%), Ministry of Economy-FRCA Customs (31%) and Ministry of Lands and Mineral Resources (30.4%).</p>	<ul style="list-style-type: none"> <li>Ministries and Departments should review their debit recovery strategies to ensure that all avenues to recover debts are exhausted and irrecoverable debts are reduced.</li> <li>The Ministry of Economy should consider providing provision for doubtful debts into the accounts as it moves to accrual accounting as a matter of prudence in the financial reporting of government funds.</li> </ul>	<p>Open</p> <ol style="list-style-type: none"> <li>Debt owed to Ministries and Departments for more than five years have reduced by \$3,401,315 or 9 percent.</li> <li>The Ministry of Economy-Pension, Judiciary, Agriculture and Infrastructure had more than 50 percent of the total arrears aging more than five years. Refer to <i>Appendix 6.1</i> for details.</li> </ol>	<p><b>Response Whole of Government Audit Report 2016</b></p> <p><i>The Arrears of Revenue owed to Ministries and Departments for more than 5 years have been decreased.</i></p> <p>WAF will be the only one that has improved awaiting the approval of write off revenue arrears amounting to around \$19 million. <b>Appendix 11.2</b></p>



<p><b><u>Significant Balances owed by Ministries and Departments</u></b></p> <p>Audit review of the Arrears of Revenue for Ministries and Department revealed continuous increase and significant balances from Ministry of Economy-Pension, Communication, Education, Health, Government Printing and Peace Keeping.</p>	<ul style="list-style-type: none"> <li>Ministries and Departments should review the debt recovery strategies to ensure that all avenues to recover debts are exhausted and irrecoverable debts are reduced.</li> <li>The Ministry should consider providing provision for doubtful debts into the accounts as it moves to accrual accounting as a matter of prudence in the financial reporting of government funds.</li> </ul>	<p>A slight reduction in the arrears of revenue for the Ministry of Economy-Pension, Communication, ITC Services, Education, Government Printing and Lands. However the arrears of revenue for Communications Government Printing and Peacekeeping were still substantial. Moreover, there was an increase in arrears of revenue for</p> <ul style="list-style-type: none"> <li>FRCA by \$14,585,573 or 22%</li> <li>Public Utilities by \$3,912,588 or 13%</li> <li>Ministry of Infrastructure and Transport by \$4,682,331 or 7,327%</li> </ul> <p>The Debt Cash Flow Management Unit of the Ministry of Economy confirmed that the increase in the arrears of revenue was due to the following:</p> <ul style="list-style-type: none"> <li>Cyclone Winston and the early April Floods had its impact on businesses and its cash flows and FRCA supported in the business recovery, economic financial constraints by taxpayers, aged debts-recovery of aged debts place pressures on the staffing of the resources and the economic implications of recovery actions by the tax office is carefully considered in line with the Government economic and social policy</li> </ul>	<p>The Debt Management Unit monitors arrears of revenue by way of ensuring quarterly reports are submitted on time and Agencies implement recovery actions that are robust and effective. In most cases, MOE meets with agencies to verify status of arrears, recovery tools and reconciliation of accounts are undertaken on quarterly basis. Agencies are also reviewing their costs recovery procedures and are allocating resources accordingly in an effort to reduce arrears and further minimize escalation of arrears. The role of the Permanent Secretaries is to ensure the reduction of arrears on annual basis. In the past, PS's performance is also link to reduction in arrears of revenue and how effective the recovery tools are – Table 5 of the ACP. MOE only requests for approval for write off from Minister if the arrears are over 5 years and when Agencies have exhausted all avenues of recoveries. <b>Appendix 11.3</b></p>
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		<p>directives.</p> <ul style="list-style-type: none"><li>▪ Accumulated Water &amp; Sewerage Departments' arrears that were taken into account. A draft Cabinet paper for write off amounting to \$19 million is currently in its reviewing stages which will then be submitted to Ministry of Public Enterprises for submission and presentation to the line Minister for the next Cabinet meeting.</li></ul>	
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Ministry's Comments

The Arrears of Revenue owed to Ministries and Departments for more than 5 years have decreased. The Debt Management Unit monitors arrears of revenue by way of ensuring quarterly reports are submitted on time and Agencies implement recovery actions that are robust and effective. In most cases, MOE meets with agencies to verify status of arrears, recovery tools and reconciliation of accounts are undertaken on quarterly basis. Agencies are also reviewing their costs recovery procedures and are allocating resources accordingly in an effort to reduce arrears and further minimize escalation of arrears. The role of the Permanent Secretaries is to ensure the reduction of arrears on annual basis. In the past, PS's performance is also link to reduction in arrears of revenue and how effective the recovery tools are – Table 5 of the ACP. MOE only requests for approval for write off from Minister if the arrears are over 5 years and when Agencies have exhausted all avenues of recoveries.

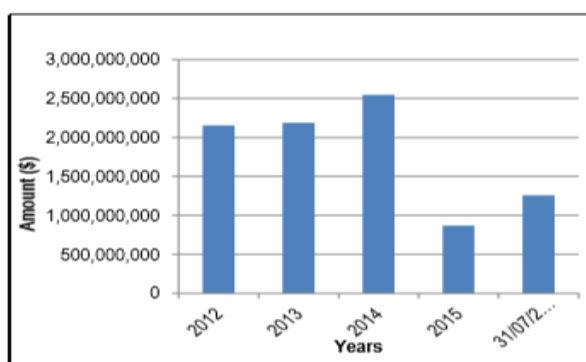
## 12.0 Contingent Liabilities

The Government under the authority of the Parliament provides a guarantees for the financial liability of entities in respect of loans or otherwise. A contingent liability is a potential liability that may or may not become due, depending on whether a possible event occurs, such as a claim for compensation, an indemnity or other legal claim.

The Government's total contingent liabilities fluctuated over the last 5 years. A total of 15 entities were covered under Government guarantee as at 31 July 2016. Table 12.1 and Figure 12.1 below shows the total contingent liabilities for past five years.

**Table 12.1 and Figure 12.1: Government Guarantee 2012 - 2016**

Year	Number of Entities on Govt. Guarantee	Total Contingent Liabilities (\$)
2012	15	2,155,254,122
2013	14	2,191,273,681
2014	14	2,547,156,387
2015	15	868,317,120
2016	15	1,259,153,085



The total contingent liabilities as at 31 July 2016 was \$1,259,153,085. The contingent liabilities increased by \$390,835,965 or 45% compared to the balance of \$868,317,120 in 2015. This was due to the additional guaranteed loan of \$122,027,197 given to Fiji Development Bank, Fiji Electricity Authority, Fiji Sugar Corporation and Pacific Fishing Company Ltd.

Contingent liabilities may arise due to either explicit legal obligation or an implicit constructive obligation. Included under other explicit contingent liabilities are International Agencies whose membership subscriptions represent callable capital of which the government subscribes for shares as its membership contributions/capital holdings with these institutions. The agencies would call on this callable capital if Fiji is proven not to be complying with the articles of agreement or if Fiji fails to honor its loan commitments under respective agreements with these institutions. Refer to Table 12.2 for details.

**Table 12.2: Composition of Contingent Liabilities**

<b>Contingent Liabilities</b>	<b>2016</b>	<b>2015</b>	<b>Increase/ (Decrease)</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Explicit Contingent Liabilities	787,351,602	824,476,209	(37,124,607)
Other Explicit Contingent Liabilities	436,128,392	7,627,527	428,500,865
Implicit Contingent Liabilities	35,673,091	36,213,384	(540,293)
<b>Total Contingent Liabilities</b>	<b>1,259,153,085</b>	<b>868,317,120</b>	<b>390,835,965</b>

Government explicit and implicit contingent liabilities decreased by \$37,124,607 and \$540,293 respectively in 2016 compared to 2015. The Explicit Contingent Liabilities cover both domestic and overseas loans. Domestic loans accounted for \$ 717.9 million or 91.2% of total liabilities while overseas loans accounted for \$ 69.5 million or 8.8% of total liabilities as at 31/07/2016. The only government entity with overseas borrowings guaranteed by government is Fiji Sugar Corporation.