



OFFICE *of the* AUDITOR GENERAL
Republic of Fiji

REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI

**Audit Report on Municipal Councils
2014-2017**



PARLIAMENT OF FIJI
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OFFICE *of the* AUDITOR GENERAL
Republic of Fiji

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File: 102

30 August 2019

The Honorable Ratu Epeli Nailatikau
Speaker of the Parliament of the Republic of Fiji
Government Buildings
Constitution Avenue
SUVA

Dear Sir

AUDIT REPORT ON MUNICIPAL COUNCILS - 2014-2017

In accordance with section 152(13) of the Constitution of the Republic of Fiji, I am pleased to transmit to you my report on Municipal Councils for 2014-2017.

A copy of the report has been submitted to the Minister for Economy who as required under section 152(14) of the Constitution shall lay the report before Parliament within 30 days of receipt, or if Parliament is not sitting, on the first day after the end of that period.

Yours sincerely

Ajay Nand
AUDITOR-GENERAL

Encl.



The Office of the Auditor-General – Republic of Fiji

The Office of the Auditor-General is established as an Independent Office by the Constitution of Republic of Fiji. Its roles and responsibilities include expressing an opinion on the financial statements of state-owned entities. These audits are carried out by the Auditor-General on behalf of Parliament.

At least once every year, the Auditor General must report to Parliament on the audits conducted and on *other significant matters* the Auditor-General wishes to bring to the attention of Parliament.

This report satisfies these requirements.

The Office of the Auditor-General notes the impact of its reports to Parliament on the ordinary citizens and strives for accuracy and high quality reporting including recommendations which are not only value-adding to the entity subject to audit but its customers, the general public as well.

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AUDITOR-GENERAL'S FOREWORD

I am pleased to present the report on the financial audits of the Municipal Councils for the audits that were completed for the financial years 2014 and onwards. This is the second report on audit of Municipal Councils submitted to Parliament since I took up office on 16 January 2017.

Section 51 (1) of the Local Government Act 1972 mandate the Auditor General to audit the accounts of the Municipal Councils. Nevertheless, financial accountability by the Municipal Councils in terms of financial reporting and making available to the rate payers of the councils and public audited financial statements is seriously lacking. The financial audits of the most of the Municipal Councils is behind by more than five years as financial statements were not submitted annually to the Auditor General.

The Councils have expressed their commitment to provide the financial statements up to 2018 by end of this year. The enormous responsibility of resourcing the audits of this huge number of draft financial statements is a challenge that my Office will embrace for the financial year 2019/2020.

Status of the Audits

I am pleased to report that we have completed the audit conduct of four Municipal Councils for the financial year 2014 to 2017 of which 16 Auditor's Reports have been issued and reported in this report. 11 audited financial statements are currently being reviewed and finalized to be issued to the Councils. The financial audits for 10 Municipal Councils which have been received will be conducted in this financial year.

Report

This report contain summaries and my analysis of the audit findings, the quality and timeliness of financial reporting by Municipal Councils, the audit opinions issued on the financial statements and the key reasons for such opinions, internal control assessments, other significant issues identified from the audits and high level recommendations aimed to strengthen financial reporting, governance and internal controls.

The issues discussed in this report require the immediate attention and prompt actions by the Municipal Councils and the Ministry of Local Government to improve financial accountability by the Municipal Councils. On the same note, I would like to acknowledge the efforts already made by the Ministry and the Municipal Councils to improve financial reporting of the Councils.

I would also like to acknowledge the assistance and cooperation rendered to my Office by the Municipal Councils and Ministry of Local Government throughout the audit process. My Office is committed to fulfilling the immense task of updating the audits of the Municipal Councils and will continue to work with the Municipal Councils and the Ministry of Local Government to ensure that this is achieved.



Ajay Nand
AUDITOR-GENERAL

1.0 Introduction

The Auditor-General has the mandate under the Local Government Act 1972, Section 51 (1) to audit municipal councils. The financial statements of the municipal councils should be submitted to the Office of the Auditor General for audit by 31 May each year.

This report includes the audit results of 16 financial statements for four Municipal Councils as follows:

Municipal Council	Year
Labasa	2014 - 2017
Sigatoka	2014 - 2017
Ba	2014 - 2017
Rakiraki	2014 - 2017

Most council audits are delayed and primary due to the non-submission of the draft financial statements annually to the Auditor General for audit.

An update of the audit of the Municipal Council is provided under section 1.6.

1.1 Accountability and Audit Requirements

All municipal councils prepare annual financial statements. Special Administrators and management of these councils are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) and requirements of applicable laws and regulations. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error, selecting appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Auditor-General is responsible, on behalf of Parliament, for audit of the accounts of all municipal councils.

The Auditor-General may conduct audits in the manner considered appropriate but must ensure that they are conducted in a competent manner having regard to assessment of effectiveness of any relevant internal control system. The Auditor-General must carry out the audit in accordance with the relevant provisions of the standards on auditing issued by the Fiji Institute of Accountants or other relevant standards considered appropriate.

Following completion of an audit, the Auditor General must give an opinion on each set of financial statements audited. In addition, an audit memorandum or management letter should be issued to the responsible authority for each entity audited.

The Auditor General's responsibility is to express an opinion on these financial statements based on his or her audit in accordance with the International Standards on Auditing (ISA). Those standards require the Auditor General to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or

error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

1.2 Types of Audit Opinions Issued

In accordance with International Standards on Auditing, we express an *unmodified opinion* (unqualified) when the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) or International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) and with relevant legislative requirements. This type of opinion indicates that material misstatements, individually or in the aggregate, were not noted in our audit, which would affect the financial statements of an entity.

We issue a *modified opinion* (qualified) when having obtained sufficient appropriate audit evidence, we conclude that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or we are unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

An *adverse opinion* is expressed when we, having obtained sufficient appropriate audit evidence, conclude that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

We issue a *Disclaimer of Opinion* when we are unable to obtain sufficient appropriate audit evidence on which to base the opinion, and we conclude that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

We include an *Emphasis of Matter* paragraph in the audit report to highlight an issue that will help the user better understand the financial statements. We also include an *Other Matter* paragraph to highlight a matter that is relevant to users' understanding of the audit report.

The details of the Audit opinions issued is discussed in Section 3 of this report.

1.3 Quality and Timeliness of Financial Reports

The financial statements of most councils audited were not received on time and contained several errors and omissions. Therefore, further improvements can be made to enhance the quality and timeliness of submission of financial statements for our audit.

1.4 Internal controls

Good internal controls provide reasonable assurance that an entity is achieving its objectives relating to operations, reporting and compliance. We assess the financial controls used by the Municipal Councils using the following five key elements:

- (i) Control environment – actions, attitudes and values that influence daily operations
- (ii) Risk assessment – processes for identifying, assessing and managing risk
- (iii) Monitoring activities – oversight of internal controls for existence and effectiveness
- (iv) Control activities – policies, procedures, and actions taken to prevent or detect errors
- (v) Information and communication – systems to inform staff about control responsibilities

When we identify that internal controls in any of these elements are missing or are not operating as intended, we refer to them as *control deficiencies (audit finding)*. If we identify that a control deficiency, either alone or in combination with other deficiencies, may lead to a material misstatement in the entity's financial statements, we refer to this as a *significant audit finding*.

If we identify a deficiency (audit finding) with any of these internal controls as part of our audits, we report the finding to the Council's management.

The Results Summary in Section 5.3 shows the strength of controls in key elements for councils which were audited. Our audit indicated that Controls Activities and Risk assessment were areas where majority of the significant deficiencies were identified.

1.5 Other significant matters

The Audit Act 1969 requires, amongst other things, that the Auditor-General must report on other significant matters which the Auditor-General wishes to bring to the attention of Parliament.

Other significant matters highlighted in this report, include control weaknesses which *could cause or is causing* severe disruption to the process or on the ability of an auditee to achieve process objectives and comply with relevant legislation.

It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.

Common findings which have been reported under Other Significant Matters include the following:

- Governance needs improvement.
- Financial reporting to be enhanced
- Revenue management to be improved
- Increasing trend in rate arrears.
- Board of survey not carried out.
- Interest not being charged on overdue rates.
- Non-maintenance of appropriate and adequate accounting records.
- Sexennial valuation not carried out by the councils.

1.6 Delays in completion of audits

The table below shows the status of municipal council audits as at 28 August 2019.

Municipal Council	Last year audited	Audits delayed (Years)
1. Suva	2011	6
2. Lami	2013	4
3. Sigatoka	2017	Nil
4. Nadi	2014	3
5. Lautoka	2013	4
6. Ba	2017	Nil
7. Tavua	2013	4
8. Rakiraki	2017	Nil
9. Levuka	2011	6
10. Nausori	2013	4

Municipal Council	Last year audited	Audits delayed (Years)
11. Nasinu	2009	8
12. Labasa	2017	Nil
13. Savusavu	2010	7

There are a total of 46 financial statements of Municipal Councils which are due and yet to be completed. Out of this:

- 11 audits are in progress and mostly in finalization stage
- 4 accounts will be resubmitted
- 21 financial statements yet to be received
- 10 audits are yet to be commenced

Audits are in backlog due to the following:

- Delay in submission of draft accounts for audits or draft accounts submitted were incomplete and were returned to the councils for further action; and
- Relevant information/records were not provided for audit on a timely basis.

One of the major challenge faced by auditors to conduct and complete the backlog audits is timely submission of information and response to audit queries. Due to significant lapse of time, councils take a lot of time to attend to audit queries especially where the staffs have moved. Staffs who have replaced former staffs are not in a position to relate to the events and economic reality behind transactions that have occurred in past years.

However, we are working with the Ministry of Local Government to make the audit process more effective. One such initiative that is taken is preparation of an audit file by the Councils prior to commencement of the audit which will be scrutinized by auditors prior to audit engagement. This will also assist the Council to be prepared for the audit with necessary accounting records and documentations.

In addition, most of the draft financial statements of Councils in backlog were issued together putting strain on our resources to complete them together.

Details of audits not completed are provided in **Appendix C**.

1.7 Audit Conclusions and Recommendations

As part of our audit, we issue recommendation to individual councils on how best they could improve the council's internal control system, financial processes and operations.

The overall audit conclusion and recommendations for significant issues noted is discussed in Section 7 and 8 of this report.

While there are councils which have addressed key issues there are still recommendations which were issued in prior years which are yet to be implemented.

1.8 Reference to Comments

The comments provided by municipal councils following the audit have been incorporated in this report.

We provided a full copy of the report with request for comment to Ministry of Local Government, Housing and Environment.

Responses received as at 28 August 2019 are reflected in **Appendix E**.

2.0 Context

2.1 Legislative framework

The following legislation establishes the financial accountability frameworks and legislative time frames to complete and publish audited financial statements for municipal councils.

Legislative Framework	Requirement	Legislative Timeframe
<ul style="list-style-type: none"> Local Government Act 1972, Section 57(1) 	Prepare financial statements	31 st May
<ul style="list-style-type: none"> Local Government Act 1972, Section 57 (3) 	Publish audited financial statements	31 st August

Each year, on or before 31st August, municipal councils are required to publish the balance sheet and summarized income and expenditure of the councils in local newspapers Annual Reports containing:

- A balance sheet and a summarized statement of income and expenditure of the council on 31 December immediately preceding, together with any report by the auditor thereon and;
- Notification that any ratepayer or any person holding any security charged upon the property of the council, may at all reasonable time inspect, at council's office, the full annual statement as certified by the auditor and the council's annual report prepared pursuant to the provision of section 19 and may take copies from any part of the statement or report.

The Minister responsible for Local Government is required to lay before Parliament the copies of the annual statement and reports on or before 31 July in each year, for preceding financial year.

2.2 Role of Municipal Council

Municipal Councils are essentially territorial in nature and thus are concerned with activities and provision of service within defined areas. They are established by statute and their powers, duties and responsibilities are prescribed by the relevant law.

Generally, the Local Government Act requires the councils to promote the health, welfare and convenience of the inhabitants of the municipality and to preserve the amenities.

Primarily a council may with approval of the Minister:

- Promote or establish and maintain Public Utility Services including Public Transportation; and
- Construct or maintain any public works which in the opinion of the Council may be necessary or beneficial to the Municipality

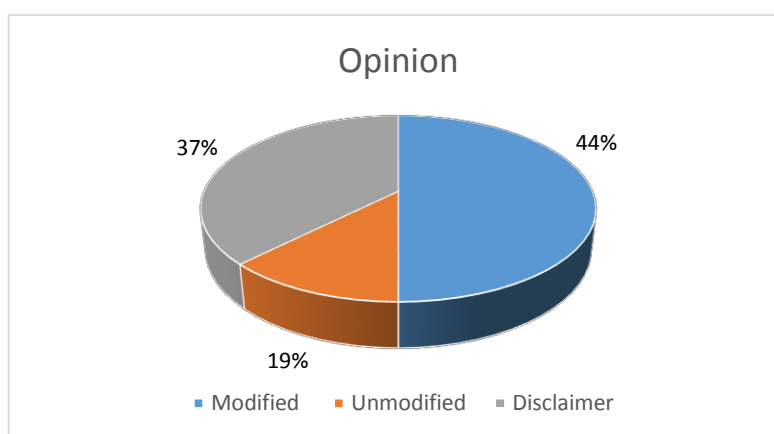
3.0 Results of Audit

3.1 Audit Opinion Results

Table A summarizes the audit opinions we issued for audit of the Municipal Councils for financial years 2014 – 2017 as at 28 August 2019.

Table A
Audit opinions issued by OAG for 2014 - 2017 financial year

Municipal Council	Year	Unmodified opinions	Modified opinions	Disclaimer of opinion
Ba	2014 -2017		2	2
Labasa	2014 -2017		4	
Sigatoka	2014 – 2017	3	1	
Rakiraki	2014 - 2017			4



The high number of modified and disclaimer of opinions issued is a matter of serious concern.

Appendix D lists the councils and the audit opinions which were issued for the financial statements for years ending 31 December 2014 - 2017.

3.1.1 Modified opinions

We issued modified opinions on seven financial statements of the Councils for three councils for the audits of 2014 – 2017 financial years.

Audit opinions of the Councils were modified due to the following:

- Non-preparation of the financial statements under the International Financial Reporting Standards for Small and Medium-sized entities as required by the Fiji Institute of Accountants.
- Unsupported balances recorded in the financial statements including unreconciled variances between the Council's general ledger balances and subsidiary records for balance sheet items specifically the rates receivable.

3.1.2 Unmodified opinions

One Council was issued an unmodified audit report for the 2014 -2016 financial statements meaning that material misstatements were not noted following our audit.

3.1.3 Disclaimer of Opinion

We issued disclaimer of opinion for six financial statements which was for two Municipal Councils. This means that the material misstatement was so pervasive that no opinion was issued.

3.2 Quality of Draft Financial Statements by Entities

The extent of audit adjustments made to draft financial statements indicates the effectiveness of an entity's internal review processes before the accounts are submitted for audit.

We assessed the quality of financial statements by the number of audit adjustments made to the first draft of financial statements and the impact these adjustments had on the operating results or net assets of the council subject to our audit.

Rating	Quality of draft financial statements assessment
🟢 Effective	No adjustments were required
🟡 Generally effective	Adjustments on operating results/net assets were less than five percent
🔴 Ineffective	Adjustments on operating results/net assets were more than five percent

3.3 Timeliness of draft financial statements for entities

To assess the timeliness of draft acceptable financial statements, we have compared the date the draft financial statements were received for audit after allowing for at least 30 days before the legislative deadlines for our audit.

Rating	Timeliness of draft financial statements assessment
🟢 Effective	Acceptable draft financial statements received within 60 days before legislative deadline
🟡 Generally effective	Acceptable draft financial statements received within 30 days before legislative deadline
🔴 Ineffective	Acceptable draft financial statements received less than 30 days before legislative deadline

3.4 Results Summary

	Year	Assessment	
		Q	T
Ba Town Council	2014 - 2017	🔴	🔴
Labasa Town Council	2014 - 2017	🔴	🔴
Rakiraki Town Council	2014 - 2017	🔴	🔴
Sigatoka Town Council	2014 - 2017	🔴	🟡

T=Timeliness of draft financial statements

Q=Quality of draft financial statements

4.0 Financial Reporting

The information in the financial statements describes the transactions and events that have occurred for the year. The analysis of the financial statements can help the users of the financial statements especially the key stakeholders in understanding the effect of the financial transactions.

Our analysis of the financial statements focuses on two key elements of the financial statements which includes the Statement of Financial Performance and Statement of Financial Position.

We have reviewed the operating results and net assets of the Municipal Councils for the years 2014 – 2017 and provided the analysis of the results, conclusion and recommendations.

Our assessment of the operating results and net assets were based on the actual results of the councils audited accounts.

4.1 Financial Performance

The measure of the financial performance of the councils is the operating results which is the difference between the council's total revenue less the total expenditure.

There were mixed results of our assessment for the councils and overall 50% or two councils had positive net results average over the four-year period while one council had a loss situation for continuous three years and one council had continuous loss for two consecutive years.

Council	Net operating results (\$)			
	2014	2015	2016	2017
Labasa Town Council	460,723	(167,608)	194,712	(141,799)
Rakiraki Town Council	(134,838)	(35,820)	(204,904)	3,506,918
Sigatoka Town Council	19,162	945	(78,432)	(95,973)
Ba Town Council	41,497	411,714	488,724	31,702

Loss in one year followed by a surplus in another year is not a bad indicator for poor financial performance and the financial sustainability of the council. However, continuous operating loss should be a matter of major concern.

The Rakiraki Town Council has made continuous operating deficit from 2014 to 2016. The results show that the Council made a huge operating profit in 2017 of \$3,506,918. However, the 2017 operating profit is largely due to the misstatement of grant income which the Council recorded in 2017 of \$3,703,844 which should have been recorded as deferred grant in the statement of Financial Position. Had the grant been appropriately recorded in the financial statements the operating results for 2017 would have also shown an operating deficit.

Sigatoka Town Council had made a deficit for continuous two years now and shows signs of increased risk of financial sustainability.

4.2 Financial Position

Financial position is the status of assets, liabilities and owners' equity as reflected in the statement of financial position. The Council's measure for the financial position is the net assets. Increasing trend in the net assets would indicate that the council's financial condition of the Council is improving and the council will be able to continue its operations in future.

Council	Net assets (\$)			
	2014	2015	2016	2017
Labasa Town Council	9,088,597	8,920,989	9,119,076	8,934,719
Rakiraki Town Council	715,958	680,138	475,234	3,982,152
Sigatoka Town Council	281,404	298,437	228,281	132,307
Ba Town Council	14,732,978	14,988,136	15,778,253	15,809,955

Overall the net assets of the three councils have fluctuated for the four years. One council had a steady growth in their net assets over the four years.

Sigatoka Town and Rakiraki Town Council's net assets has declined over time. The significant increase in the net assets of the Rakiraki Town Council in 2017 is the result of a misstatement of government grant which was reported as income instead of deferred grant as liability. If the correct accounting treatment was done then the Rakiraki Town Council would have a declining net assets in 2017 as well.

5.0 Internal Controls

5.1 Internal Control Assessment

During our audits, we assess the design and implementation of controls to ensure that they are suitably designed to prevent, detect and correct material misstatements. Where audit strategy requires, we also test the operating effectiveness to ensure the internal controls are functioning as designed.

Internal controls are categorized against the following five components of internal control.

Control Environment (CE) – is the set of standards, processes and structures that provide the basis for carrying out internal controls across the entity. These include commitment to integrity and ethical values, independence of management to exercise oversight for the development and performance of internal control, documented structures, reporting lines and appropriate authorities such as delegated levels of authority and responsibilities in the pursuit of the entity's objectives. It also includes commitment to attract, develop and retain competent individuals, and holding them accountable for their internal control responsibilities.

Examples of issues which fall under this category are ethical breaches, gaps in internal controls or controls are non-existent, individuals are not held accountable for breaches in control or entities code of ethics, staff recruitment, and training and professional development, performance assessment and succession planning matters.

Our high level review of the Control environment found the following:

- Absence of appropriate structure to carry out internal controls across the council
- Absence of oversight functions
- Inconsistency in application of internal controls due to absence of proper guidance
- Lack of adequate understanding of internal controls
- Absence of delegated authority to maintain internal controls
- Absence of Risk Management Framework

While the Councils may be performing some of the internal controls these are not documented to ensure that these are being carried out.

Risk Assessment (RA) – involves a dynamic process for identifying and analyzing risks to achieve the entity's objectives, forming a basis for determining how risks should be managed.

Examples of issues which would fall under this category are absence of risk management framework, operational including fraud and enterprise risks not identified, assessed and mitigated and impact of changes in business processes on controls not identified and assessed.

We generally noted that the Councils have no documented process for identifying and analyzing risks. While these may be happening in the Councils but in absence of the documented process it was difficult to assess its implementation and effectiveness.

- Risk Management Framework/policies not been developed
- Risk registers not being maintained and continuously updated
- Fraud Awareness program not documented
- Absence of disaster recovery plans

By not doing this the Councils are exposed to the impact of risks that are not mitigated through internal controls and would fail to develop appropriate policies, plans and procedures to safeguard Council assets.

Control Activities (CA)—these are established by policies and procedures to help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of an entity and at various stages within business processes, and over the technology environment.

Examples of issues which would fall under this category are general controls relating to information technology, documentation of procedures which have in-built checks and balances which are aligned to the policies of the council. Specific control activities include those relating to authorization, performance reviews, information processing, physical controls, and segregation of duties.

We found the following key control issues as follows:

- Account reconciliations not performed or reviewed by the councils.
- Absence of relevant information such as complete records of revenue source
- Absence of Board of Survey of property, plant and equipment
- Banking not done on a daily basis
- Lack of evidence on the reviews on the reports such as pay reports, debtors reports, creditors reports, fixed assets schedule

Information and Communication Control (IC) – information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally and provides the entity with the information needed to carry out day-to-day controls. Communication enables personnel to understand internal control responsibilities and their importance for the achievement of objectives.

Examples of issues which would fall under this category are reporting to Special Administrator and Ministry of Local Government on matters relating to internal controls

We were unable to determine the means of Councils communication of key internal control responsibilities to the delegated staffs. This area needs to be strengthened by Councils as lack of communication will result in loss of accountability and responsibility from the personnel responsible to perform internal controls.

Monitoring Activities (MA)—on-going evaluations, separate evaluations or some combination of the two are used to ascertain whether controls are present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner.

Examples of issues which would fall under this category are self-assessment by councils to determine whether internal controls are present and function. This may include the establishment of independent internal audit functions within entities which would assist in identifying any gaps in controls.

We noted that none of the councils audited have an independent Internal Audit function in place to assist in strengthening the implementation of internal controls and provide valuable advice on other operational matters.

A deficiency occurs when internal controls are unable to prevent, detect or correct errors in the financial statements or where controls are missing.

A significant deficiency is a deficiency that either alone or in combination with multiple deficiencies may lead to a material misstatement in the financial statements. It requires immediate management action.

The following table outlines the rating we have used to assess internal controls:

Rating	Internal control assessment
🟢 Effective	No deficiencies identified in internal controls
🟡 Generally effective	Deficiencies identified in internal controls
🔴 Ineffective	Significant deficiencies identified in internal controls

5.2 Common findings

Internal control deficiencies identified were communicated to the municipal councils through our management letters. Common internal control weaknesses relate to the following key components:

- Cash management
- Procurement of goods and services
- Payroll
- Asset management
- Revenue Management

5.3 Results Summary

The following table summarizes our assessment of internal controls of the Councils for the 2014 - 2017 financial year.

Council	Year	Internal controls				
		CE	RA	CA	IC	MA
Ba Town Council	2014 - 2017	🔴	🔴	🟡	🔴	🔴
Labasa Town Council	2014 - 2017	🔴	🔴	🟡	🔴	🔴
Rakiraki Town Council	2014 - 2017	🔴	🔴	🟡	🔴	🔴
Sigatoka Town Council	2014 - 2017	🔴	🔴	🟡	🔴	🔴

CE=Control Environment RA=Risk Assessment

CA=Control Activities

IC=Information and Communication Control

MA=Monitoring Activities

6.0 Other Significant Matters

The Audit Act 1969 requires, amongst other things, that the Auditor-General must report on other significant matters which the Auditor-General wishes to bring to the attention of Parliament.

Other significant matters highlighted in this report, include control weaknesses which *could cause or is causing* severe disruption to the process or on the ability of an auditee to achieve process objectives and comply with relevant legislation.

It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.

It is important to note that the deficiencies detailed in this report were identified during our audit and may have been subsequently resolved by the Councils. However, these have been included in the report as they impacted on the overall system of control of the Municipal Councils as at the date of the financial statements.

6.1 Common Findings

The findings detailed below were communicated to the Municipal Councils through our Management Letters and they relate to the following:

6.1.1 Corporate Governance

Weaknesses in the Governance of the Municipal councils was noted where by the Councils highlighted in this report did not have appropriate Corporate Governance structure in place. This includes the following:

- Lack of appropriate Standard Operating Procedures
- Absence of Internal audit function
- Absence of Risk Management policies
- Absence of disaster recovery and business continuity plans

6.1.2 Financial Reporting

Financial reporting system continue to be of concern. While some Councils showed improvements in updating their financial statements, errors and misstatements were still prevalent in their reporting. This required audit adjustments and in some cases resubmission of the financial statements. The findings were in relation to:

- No evidence existed whether proper impairment tests for financial assets and property, plant and equipment were carried as required by the accounting standards. The councils were unable to provide the evidence for the compliance of these accounting policies as stated in their financial statements.
- General journal systems were either not maintained or were not supported with appropriate evidence. Sigatoka Town Council improved its system from financial year 2017.

- Rakiraki Town Council and Sigatoka Town Council were still using manual accounting system to produce their financial statements which carries risk of human errors
- There was no evidence to indicate that monthly detailed management financial reports are presented in the monthly management meetings or is reviewed periodically by the Senior Accounting officer.

6.1.3 Revenue Management

Lack of appropriate records were noted during our audit for various revenue streams of the Councils to ensure that the revenue derived and recorded in the financial statements are accurate. Common issues across the councils were as follows:

- Detailed list of business license fees not maintained
- Unimproved Capital Valuation reports were not reconciled with the rate revenues
- Sexennial valuations not carried out to determine the current valuation of the property

6.2 Other Findings

6.2.1 Ba Town Council 2015-2017 - Rubbish Dump Fees

An instance was noted where the Ba Town Council charged rubbish dump fees based on the tons of rubbish estimated by the Health Inspectors through observation of the amount of rubbish in trucks. There is a fixed schedule of rates based on the number of tons of rubbish which is charged to businesses for the use of Maururu Dump. However, estimation which is done by Health Officer through observation can be subject to high degree of human error and as a result correct rate may not be applied which can result in loss of potential revenue of the Council. The Council has stated that having a weighbridge will be costly to the council.

6.2.2 Rakiraki Town Council 2014 – 2016 – Interest revenue

Section 78 (2) of the Local Government Act 1972, states that “Any rates which are overdue shall bear interest at the rate of *7 percent per annum and such interest charged shall be included in the expression “rates”; the Minister may by order vary the rate of interest”. The Council did not charge interest on overdue rates in the financial years 2015 to 2016 in accordance with the requirements of the Local Government Act (no interest was charge on overdue rates for the financial years ending 31 December 2014).

6.2.3 Rakiraki Town Council 2014 – 2017 – Revenue recorded on cash basis

Audit review of the Council’s revenue records revealed that rates, garbage fees, and business license were recorded on cash basis instead of accrual basis.

6.2.4 Increasing Trend of Rate debtors – 2014 - 2017

Our audit noted that the Councils still carry significant amount of rates debtors in their books. Increasing trend in rates arrears indicated that current collection strategy of the Council may not be effective.

If immediate steps are not taken to recover the arrears it is possible that these may become irrecoverable and the Council's may end up writing-off substantial amount of debts. Table below show the comparison of the rate debtors for the councils for 2014 – 2017

Municipal Council	2014 (\$)	2015 (\$)	2016 (\$)	2017 (\$)
Labasa Town Council	1,443,244	1,230,159	1,425,453	1,489,231
Sigatoka Town Council	70,013	65,320	76,611	70,989
Ba Town Council	756,436	829,977	899,746	967,780
Rakiraki Town Council	105,399	92,321	141,099	149,561

6.2.5 Ba Town Council 2014-2017 - Appointment of Special Administrator

The Ba Town Council's Special Administrator resigned from the position with effect from 13 July 2013. However, a Special Administrator was yet to be assigned to the Council as of the date of this report.

In the absence of the Special Administrator, the responsibility to make the decisions for the council was on the Chief Executive Officer. This has resulted in loss of independent oversight of Council's operations.

Council has referred this matter to the Ministry.

6.2.6 Rakiraki Town Council 2014-2017 - Accounting records not produced for audit

The Rakiraki Town Council could not provide the following accounting records for audit verifications:

- Market ticket and market summary book for the financial year 2015 to 2017; and
- Toilet ticket and toilet summary book for the financial year 2015 to 2017.

The Council advised that these records were destroyed following Cyclone Winston

6.2.7 Rakiraki Town Council 2015 – Allowance for Former Acting Special Administrator

We were unable to substantiate the allowances paid to the former Acting Special Administrator of the Council as the supporting documents and personal file was not provided for audit verification.

The Council has indicated that they have improved on the process from 2016.

6.2.8 Anomalies in the Capital Fund Account – Sigatoka Town Council

In the financial year 2011, the Council had deposited a sum of \$795,200 in the Capital Fund bank account which was received from Morris Hedstrom (MH) in relation to the purchase of MH land and rates due from the land. In a letter dated 28/03/2013, the Ministry of Local Government had required the Council to provide reasons the money was still held by the Council when it was meant to repay its loan from the bank. The Council responded to the letter on 10/04/2013 and requested approval from the Ministry to use \$500,000 to repay loan and the balance of \$295,200 to be used for Council's

general operations. The Ministry approved the Council's request through a letter dated 28/05/2013. However, audit review of the Capital fund account revealed that the funds approved by the Ministry to be used for loan repayments has not been complied with and instead the payments were made for the operations of the Council.

The Council has agreed to the issue and have stated that funds will be put back in the Capital fund account for the repayment of the loan.

6.2.9 Sigatoka Town Council 2017 - Special loan rates

Section 59 (1) (a) of the Local Government Act 1972 states that, "A Council may make and levy special rates in all or any part of the municipality for the purpose of undertaking any works or services which may be lawfully undertaken by the council or for the payment of interest and sinking fund of any loan raised by the council for such purposes: Provided that –

- (a) Such special rates so levied shall not in the aggregate exceed 5 cents in the dollar on the unimproved value of any rateable land within the municipality".

Section 59(3) of the Local Government Act states that, "Moneys raised on a special rate shall be accounted for separately in the books of council and such moneys shall not be used for any purpose than that for which the rate is imposed".

Our review of the loan rates revealed the following anomalies:

- The Council charged \$1.25 cents in the dollar instead of \$0.05 cents in the dollar as stipulated in the Local Government Act.
- The Council received \$194,426 for special loan rates, and used \$156,000 for loan repayment and \$38,426 to meet the operational cost. This indicated that \$38,426 of the loan rates received was not used for the purpose for which they were levied, which is not in accordance with the requirements of the Local Government Act.

The anomalies noted above resulted mainly from non-compliance with the requirements of the Local Government Act.

7.0 Audit Conclusions

- 7.1 Modified (qualified) and disclaimer of opinions were issued on 13 out of 16 financial statements which reflects very poorly on the Councils. Contributing factors would be lack of competency in preparation of financial statements, poor internal control system, lack of oversight on accounting functions and absence of key accountabilities.
- 7.2 Timely preparation of quality draft annual financial statements is a major issue which continues to exist in all councils. Apart from Sigatoka Town Council, none of the Councils were able to submit the financial statements on time. In addition, the financial statements contained several errors and omissions which required audit. This indicates capacity and competency issues in financial reporting where accounting officers are unable to prepare financial statements in compliant with Accounting Standards. Ignorance in this area will continue to delay the submission of financial statements in a timely basis and will prevent the Auditor-General from giving an opinion on them on a timely basis and informing Parliament and other stakeholders of the outcome of such audits.
- 7.3 The increasing trend of rate debtors continues to be an issue with the Councils. This was evident from the findings in this report that this is a common problem for Councils to solve. It is apparent that the Councils are unable to manage its rate debtors which is key source of revenue for the councils. If not addressed promptly, this can put pressure on council's liquidity situation.
- 7.4 The high number of accounts which are yet to be submitted for audit is an issue of major concern. Financial information becomes meaningless and irrelevant when it is untimely. In addition, the Councils may act under pressure to submit backlog of accounts which increases the risk of incomplete and financial statements with errors.
- 7.5 Independent oversight functions were found to be weak or non-existent. Independent Internal Audit functions and Audit Committees did not exist in Councils. The high number of internal control issues noted can be largely attributed to lack of monitoring of checks and balances.
- 7.6 Revenue management system has not been effective across Councils. Various issues were noted from the audit of the revenue where Councils were not maintaining appropriate accounting records to ensure that the revenue earned are billed. These were in the area of fees and charges.
- 7.7 We also found that the Councils do not have Risk Management policies and Disaster Recovery plans in place. These are important for guiding them in time of disasters.
- 7.8 Some Councils highlighted in this report have been continuously incurring operating deficits. This is an indicator that the Councils may not be comprehensively planning its spending which is causing them financial stress.

8.0 Recommendations

- 8.1** Close and immediate attention should be given to address matters which have been emphasized in audit reports including those included as other significant matters in management letters. Those charged with governance of Councils should ensure these issues are resolved immediately to avoid repetition in audit of subsequent financial statements.
- 8.2** Timely preparation of quality draft annual financial statements is a major issue which continues to exist and needs to be addressed by those charged with governance in the Councils. This could be attained through accountability and when people are held responsible for their actions. Those charged with governance need to ensure that draft financial statements are submitted to Office of the Auditor General as stipulated in the Local Government Act 1972. The Ministry of Local Government should enforce this Act on the councils and any non-compliance should be strictly dealt with. Special Administrators and Chief Executive Officers should take more accountability and ownership to ensure the timeline is met. This will instill culture of timeliness for financial reporting.
- 8.3** Efforts should be made to improve rate collection. This can be done by providing incentives to ratepayers to pay and by engaging with them at a regular basis. Effective monitoring and collection system should be implemented. A dedicated team to carry out rate collections can be beneficial to the Councils. This is important because rates is the main source of income for the Councils and its timely collection can assist the councils significantly to meet operational and capital expenditures.
- 8.4** Accounting officers need to be fully trained for preparing quality financial statements. Commitment should be made by Council management to ensure it trains and retains quality people in the Council. To achieve this, remuneration aligned to the market should be offered to staffs in critical positions.
- 8.5** Independent Internal Audit functions and Audit Committees were found to be lacking in Councils. High number of internal control issues were prevalent because there is no means of monitoring the checks and balances in place. Council management should put into place mechanisms to ensure that controls are complied with by all staffs. Setting up independent Internal Audit functions which report to Audit Committees in Councils or in the Ministry can assist in obtaining assurance on compliance with controls and advise on other matters.
- 8.6** Fees and charges are one of the significant revenue source of the Council and appropriate recording and invoicing system should be in place to ensure that these revenues are billed and accounted for in a timely manner. This will boost the revenue collection of the councils.
- 8.7** Councils should urgently formulate and implement Risk Management policies and Disaster Recovery plans. Since most Councils operate in disaster prone areas, it becomes very important that these documents can assist in mitigating risks and preparing Councils in advance of any impending disaster.
- 8.8** To improve on their financial performance, Councils should consider reviewing its service level plans against the forecasted revenue. Ideally, spending should be within the means of the revenue that will be generated. Commitment to spend should be evaluated against the potential revenue of the Council to ensure deficits do not require external financing.

9.0 Appendices

Appendix A: Qualifications Issues

Municipal Council	Qualification Issues
Rakiraki	
2014	<ol style="list-style-type: none"> 1. Rakiraki Town Council is a Municipal Council and the financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities ("IFRS for SMEs"). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements. Accordingly, Audit was unable to determine the impact on the financial statements of the Council if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs. 2. The Council could not provide adequate and appropriate accounting records, supporting documents and reconciliations for cash at bank of \$15,491 trade and other receivables of \$167,071, property, plant and equipment of \$567,735, VAT payable of \$30,549, prior year adjustment of \$515,503, salary and wages of \$129,241 garbage collection expense of \$28,742, depreciation expense of \$106,263 and miscellaneous expenses of \$8,250. In addition, Audit was unable to obtain sufficient and appropriate audit evidence concerning the total income of \$275,675. Therefore, necessary audit procedures to substantiate accuracy of these accounts disclosed in the financial statements could not be performed. 3. The Council did not maintain an up-to-date general ledger for the financial year 2014. As a result, Audit could not perform necessary audit procedures to confirm balances from financial statements to general ledger. 4. The closing balances of the 2013 statement of financial position were qualified. Audit was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Therefore, it has impacted on the opening balances of the 2014 financial statements.
2015	<ol style="list-style-type: none"> 1. Various payment vouchers and supporting documents were not provided for audit. The Council indicated that the records were destroyed during Tropical cyclone Winston in 2016. The missing records have provided limitation to the scope of audit, thus, prevented from forming an opinion on the financial report taken as a whole. 2. The Council recorded cash and cash equivalents of \$153,140 in the statement of financial position as at 31 December 2015. The Council was unable to provide monthly bank reconciliation statements to substantiate the above balance. As a result Audit was unable to determine whether any adjustment might have been necessary in respect of the Council's cash and cash equivalents balance at year end

Municipal Council	Qualification Issues
	<p>and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <ol style="list-style-type: none"> <li data-bbox="432 331 1378 577">3. The Council recorded trade and other receivables balance of \$95,859 in the statement of financial position as at 31 December 2015. Included in the amount are long outstanding debts of \$81,090 or 85% of the total trade and other receivables balance. The Council did not provide provision for doubtful debts, therefore, Audit was unable to ascertain whether trade and other receivables of \$95,859 has been fairly stated in the financial statements. <li data-bbox="432 618 1378 1003">4. The Council recorded trade and other payables balance of \$62,197 in the statement of financial position as at 31 December 2015. Included in the amount are other creditors of \$5,392, sundry deposits of \$1,233 and VAT payable of \$47,772. The Council was unable to provide any documentation to support the above balances. As a result, Audit was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of trade and other payables balance at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position. <li data-bbox="432 1043 1378 1682">5. The Council recorded town general rates income of \$42,103, market income of \$70,618, toilet income of \$29,029, bus station/commercial/taxis income of \$6,288, business, trading and other licenses income of \$42,019, and garbage collection fees of \$159 in the detailed statement of income and expenditure. The Council was unable to provide appropriate supporting documents to support the above balances. In addition, the rates income, garbage fees and business license were recorded on a cash basis, and there was an unreconciled variance of \$70,337 between the rates listings provided by the Council and the town general rates income reflected in the financial statements. As a result, Audit was unable to verify the completeness and accuracy of this balances and also unable to determine whether any adjustments might have been necessary in respect of town general rates, market, toilet income, bus station/commercial/taxis, business, trading and other licenses income, and garbage collection fees at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position. <li data-bbox="432 1722 1378 1968">6. The Council recorded government grant income of \$191,050 in the financial statements. Included in the amount are government grant of \$84,800, which were not recorded as a liability even though conditions attached to the grant have not been met. In addition, the Council did not account for VAT of \$24,920 on government grant. Therefore, Audit was unable to ascertain whether government grant of \$191,050 has been fairly stated in the financial statements.

Municipal Council	Qualification Issues
	<p>7. The Council has not disclosed capital commitments of \$91,175, restricted cash of \$91,350 and provision of annual leave in the financial statements which is a non-compliance to the disclosure requirement of IFRS for SMEs. In addition, the Council was unable to provide me with documentations to support the transition to IFRS for SME. Consequently, Audit was unable to determine whether any adjustments to the financial statements in respect of the transition to IFRS for SMEs were necessary.</p> <p>8. The Council was unable to provide Solicitors confirmation at balance date. Consequently, Audit was unable to determine whether any disclosures to the financial statements in respect of contingent liabilities were necessary.</p> <p>9. A disclaimer of opinion was issued on the 2014 financial statements. Audit was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Audit was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Therefore, it has impacted on the opening balances of the 2015 financial statements which is used in the determination of the closing balance of 2015 balances.</p>
2016	<p>1. Various payment vouchers and supporting documents were not provided for audit. The Council indicated that the records were destroyed during Tropical cyclone Winston in 2016. The missing records have provided limitation to the scope of my audit, thus, prevented the Audit from forming an opinion on the financial report taken as a whole.</p> <p>2. The Council recorded trade and other receivables balance of \$147,327 in the statement of financial position as at 31 December 2016. Included in the amount are long outstanding debts of \$92,350 or 65% of the total trade and other receivables balance. The Council did not provide provision for doubtful debts, therefore, I was unable to ascertain whether trade and other receivables of \$147,327 has been fairly stated in the financial statements.</p> <p>3. The Council recorded trade and other payables balance of \$184,184 in the statement of financial position as at 31 December 2016. Included in the amount are other creditors of \$7,292, sundry deposits of \$1,907 and VAT payable of \$26,653. The Council was unable to provide any documentation to support the above balances. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of trade and other payables balance at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>4. The Council recorded town general rates income of \$92,699, market income of \$34,383, toilet income of \$19,616, bus</p>

Municipal Council	Qualification Issues
	<p>station/commercial/taxis income of \$31,543, business, trading and other licenses income of \$53,563, and garbage collection fees of \$22,500 in the detailed statement of income and expenditure. The Council was unable to provide appropriate supporting documents to support the above balances. In addition, the rates income, garbage fees and business license were recorded on a cash basis. As a result, I was unable to verify the completeness and accuracy this balances and also unable to determine whether any adjustments might have been necessary in respect of town general rates, market, toilet, bus station/commercial/taxis, business, trading and other licenses income, and garbage collection fees at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <ol style="list-style-type: none"> 5. The Council was unable to provide me with the grant agreement to verify the conditions attached to the government grant of \$96,000 recorded in the financial statements. In addition, the Council did not account for VAT of \$7,927 on government grant. Therefore, I am unable to ascertain whether government grant of \$96,000 has been fairly stated as income in the financial statements. 6. The Council has not disclosed capital commitments of \$36,375, restricted cash of \$31,149 and provision of annual leave in the financial statements which is a non-compliance to the disclosure requirement of IFRS for SMEs. In addition, the Council was unable to provide me with documentations to support the transition to IFRS for SME. Consequently, I was unable to determine whether any adjustments to the financial statements in respect of the transition to IFRS for SMEs were necessary. 7. The Council was unable to provide Solicitors confirmation at balance date. Consequently, I was unable to determine whether any disclosures to the financial statements in respect of contingent liabilities were necessary. 8. A disclaimer of opinion was issued on the 2015 financial statements. I was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Therefore, I am unable to satisfy myself concerning the opening balances disclosed in the statement of financial position of the Council and the impact it may have on the determination of the closing balances of the 2016 financial statements.
2017	<ol style="list-style-type: none"> 1. The Council was unable to provide various records and supporting documents to support trade and other receivables balance, trade and other payables balance and various income account. The subsidiary records not prepared and provided by the Council, and missing records have provided limitation to the scope of my audit, thus prevent me from forming an opinion on the financial report taken as a whole. 2. The Council recorded trade and other receivables balance of \$326,274

Municipal Council	Qualification Issues
	<p>in the statement of financial position as at 31 December 2017. Included in the balance were VAT receivable of \$167,688. The Council was unable to provide me with documentations to support the above balance. As a result I was unable to determine whether any adjustment might have been necessary in respect of the Council's VAT receivable balance at year end and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>In addition, included in the trade and other receivables balance are long outstanding debts of \$89,982 or 60% of the total trade and other receivables balance. The Council did not provide provision for doubtful debts, therefore, I am unable to ascertain whether trade and other receivables of \$326,274 has been fairly stated in the financial statements.</p> <p>3. The Council recorded trade and other payables balance of \$166,220 in the statement of financial position as at 31 December 2017. Included in the amount are other creditors of \$5,392, and sundry deposits of \$12,081. The Council was unable to provide any documentation to support the above balances. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of trade and other payables balance at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>4. The Council recorded town general rates income of \$65,046, market income of \$37,936, toilet income of \$18,653, bus station/commercial/taxis income of \$35,993, business, trading and other licenses income of \$59,598, and garbage collection fees of \$16,743 in the detailed statement of income and expenditure. The Council was unable to provide appropriate supporting documents to support the above balances. In addition, the rates income, garbage fees and business license were recorded on a cash basis. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of town general rates, market, toilet income, bus station/commercial/taxis, business, trading and other licenses income, and garbage collection fees at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>5. The Council recorded UNDP grant of \$1,920,000 and government grant of \$1,752,844 as income instead of liability even though conditions attached to the grant have not been met. In addition, the Council did not account for VAT of \$158,532 on grant received from UNDP. Therefore, I am unable to ascertain whether government grant received from UNDP of \$1,920,000 and government grant of</p>

Municipal Council	Qualification Issues
	<p>\$1,752,844 has been fairly stated as income in the financial statements.</p> <p>6. The Council has not disclosed capital commitments of \$1,124,139, restricted cash of \$1,128,764 and provision of annual leave in the financial statements which is a non-compliance to the disclosure requirement of IFRS for SMEs. In addition, the Council was unable to provide me with documentations to support the transition to IFRS for SME. Consequently, I was unable to determine whether any adjustments to the financial statements in respect of the transition to IFRS for SMEs were necessary.</p> <p>7. The Council was unable to provide Solicitors confirmation at balance date. Consequently, I was unable to determine whether any disclosures to the financial statements in respect of contingent liabilities were necessary.</p> <p>8. A disclaimer of opinion was issued on the 2016 financial statements. I was unable to obtain sufficient and appropriate audit evidence to ascertain the accuracy of the opening balances. Therefore, I am unable to satisfy myself concerning the opening balances disclosed in the statement of financial position of the Council and the impact it may have on the determination of the closing balances of the 2017 financial statements.</p>
Sigatoka	
2014	No Qualification
2015	No Qualification
2016	No Qualification
2017	<p>1. The Council recorded sundry deposits of \$63,717 and sundry advances of \$4,879 in the statement of financial position as at 31 December 2017. The Council was unable to provide any documentations to support the sundry deposit of \$57,817 out of the total of \$63,717, and sundry advances of \$4,879. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of sundry deposits, and sundry advances balance at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position”.</p>
Labasa	
2014	<p>1. An accounting adjustment of \$157,584 was made to receivables, for which sufficient appropriate audit evidence was not provided to support the adjustment. As such, I was unable to confirm if receivable of \$1,353,067 is fairly stated in the financial statements.</p> <p>2. Note 1.6(n) of the financial statements states that revenue is recognised in the financial statements using accrual basis of accounting. Rates income has been accounted for on cash basis for the year ended 31 December 2014, which is inconsistent with the Council’s accounting policy. As a result, rates revenue did not include rates for 2014 which remained unpaid at balance date. The Council was not able</p>

Municipal Council	Qualification Issues
	<p>to provide information on rates accrued specifically for the financial year 2014 and rates received for prior years but accounted as rates revenue. Due to this limitation, it was not possible for the audit to determine the impact of this misstatement on the rates revenue account. Accordingly, I was unable to satisfy myself if rates revenue of \$822,881 is fairly stated in the financial statements.</p>
2015	<ol style="list-style-type: none"> 1. Included in the opening balance of Trade receivables is an adjustment of \$157,584 which could not be substantiated. As a result the accuracy of the opening balance of trade receivable of \$1,353,067 stated in the financial statements could not be confirmed. 2. Included in the Pre-payments and other receivables (Note 4) is VAT receivables of \$74,855. The council did not perform reconciliation of this account. Sufficient audit evidence could not be obtained through other audit procedures. As a result the accuracy of VAT receivable stated in the financial statement could not be confirmed.
2016	<ol style="list-style-type: none"> 1. Included in the opening balance of Trade Receivables is an adjustment of \$157, 584 (Note 5) which could not be substantiated. Since the opening balance is used in the determination of closing balance, I was not able to ascertain the accuracy of Trade Receivables balance of \$1,341,099 as at 31 December 2016. In addition, the Council did not perform any impairment tests on its debtors. In absence of the impairment test I was unable to satisfy myself on the valuation of the receivables. I was therefore unable to satisfy myself if the receivable of \$1,341,099 stated in the financial statements is fairly stated as at 31 December 2016. 2. Included in Pre-payments and other receivables (Note 4) is VAT receivables of \$74,928. The Council did not perform reconciliation of this account. I was also unable to obtain sufficient audit evidence through other audit procedures. As a result, I am unable to confirm the accuracy of the VAT receivable stated in the financial statements 3. Included under Statement of Changes in Equity and Council Trust Funds is Car Park Fund of \$143,045. Note 1.5(h), Notes to the Financial Statements states that the fund has been created for contributions received from the developers under the Town Planning Act for the construction and development of car parks. However, balance of this fund has recorded surplus/deficit made from the car park operation since 2014. In addition, actual contribution from the developers have been recorded as Deposits under Trade payables (Note 9) which is not in compliance with the accounting policy of the Council. The Council has not provided adequate information and clarification for the necessary adjustments to be made in the general ledger. Accordingly, I am unable

Municipal Council	Qualification Issues
	to satisfy myself on the accuracy of the amount stated as car park fund and deposits of \$143,045 and \$324,737 respectively for current year and \$125,476 and \$273,049 for comparative year in the financial statements.
2017	1. Included in Trade receivables balance of \$1,549,923 (Note 4) is rates receivable amounting to \$1,489,232 of which \$1,341,135 or 90% are more than 90 days old. The Council has not made any provision for impairment. Consequently, I am unable to confirm if the rates receivable is correctly valued at balance date.
Ba	
2014	1. The Council is a municipal council and its financial statements are required to be prepared in accordance with the International Financial Reporting Standards for Small and Medium sized Entities (IFRS for SMEs). The Council is yet to comply with IFRS for SMEs as required for general purpose financial statements.
2015	<p>1. According to Section 57 of the Local Government Act, Ba Town Council is required to prepare its financial statements in accordance with accounting standards approved by the Fiji Institute of Accountants. The Council is yet to comply with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs).</p> <p>Accordingly, I am unable to determine the impact on the financial statements of the Council, if any, adjustment which may be necessary if the financial statements were prepared under IFRS for SMEs.</p> <p>2. The Council did not perform monthly VAT reconciliations for the financial year ended 31 December 2015. I was also unable to obtain sufficient and appropriate audit evidence through alternative audit procedures. Therefore, I am unable to satisfy myself on the accuracy of the VAT payable of \$162,690 reported in the financial statements.</p> <p>3. There is an un-reconciled variance of \$139,523 in rates receivable balance between general ledger and the rate debtors listing. Due to the variance I was unable to satisfy myself on the accuracy of rate receivable balance of \$829,977 reported in the financial statements.</p> <p>4. There is un-reconciled variance of \$297,279 in property, plant and equipment between general ledger balance and fixed assets schedule. Due to the variance I was unable to satisfy myself on the accuracy of property, plant and equipment balance reported in the financial statements.</p>
2016	1. The Council recorded trade and other receivables balance of \$1,197,768 in the statement of financial position as at 31 December 2016. Included in the amount are rate debtors of \$967,780, advance to parking meter of \$154,626, income in advance of \$14,420, and provision for doubtful debts of \$95,015. The Council was unable to provide me supporting documentations to support the above balance. In addition, there was

Municipal Council	Qualification Issues
	<p>an unreconciled variance of \$134,056 between the rates debtor listing provided by the Council and the amount reflected in the financial statements. As a result I was unable verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of the rates debtors, advance to parking meter, income and advance, and provision for doubtful debts at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>In addition, the Council provided for \$95,015 of doubtful debts, while the trade and other receivables listing provided by the Council indicated that \$798,640 or 67% of the trade and other receivables balance are long outstanding and may be impaired. Accordingly, the provision for doubtful debts is inadequate, and therefore, I am unable to ascertain whether the trade and other receivables of \$1,197,769 has been fairly stated in the financial statements.</p> <ol style="list-style-type: none"> 2. The Council recorded VAT payable balance of \$166,071 in the statement of financial position as at 31 December 2016. There was an unreconciled variance of \$154,409 between the VAT reconciliation provided by the Council and the amount reflected in the financial statements. As a result, I am unable to ascertain whether the VAT payable balance of \$166,071 has been fairly stated in the financial statements. 3. The Council recorded business, trading and other licenses income of \$149,508 in the statement of income and expenditure for the general fund. The Council was unable to provide appropriate supporting documents to support the above balances. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of business, trading and other licenses of at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position. 4. The Council did not disclose restricted cash of \$1,363,632, capital commitments, and contingent liabilities in the notes to the financial statements which is a non-compliance to the disclosure requirement of IFRS for SMEs. In addition, the Council was unable to provide me with documentations to support the transition to IFRS for SME. Consequently, I was unable to determine whether any adjustments to the financial statements in respect of the transition to IFRS for SMEs were necessary. 5. The Council recorded an asset revaluation reserve of \$9,814,072 in the statement of financial position for the year ended 31 December 2016, which had been carried forward from previous years. The Council in its opening statement of financial position, did not adjust its balances for property, plant, and equipment at 1 January 2015 to eliminate the effects of any revaluations accounted for in prior years. In addition, the Council

Municipal Council	Qualification Issues
	<p>did not disclose whether it early adopt the amendments to section 35 and 17 of the IFRS for SMEs which allows an option to use the revaluation model of PPE effective for annual periods beginning on or after 1 January 2017 with earlier application permitted. As a result, I was unable to verify the completeness and accuracy of the reserve balance and also unable to determine whether any adjustments might have been necessary and any corresponding adjustments to the element making up the statement of income and expenditure and statement of financial position.</p> <p>6. The Council was unable to provide supporting documentations to support balances reported in the statement of cash flows and note 16 to the financial statements. Consequently, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of the cash flow balances.</p>
2017	<p>1. The Council recorded trade and other receivables balance of \$1,120,468 in the statement of financial position as at 31 December 2017. Included in the amount are rate debtors of \$899,746, advance to parking meter of \$154,626, income in advance of \$15,769, and provision for doubtful debts of \$95,015. The Council was unable to provide me supporting documentations to support the above balance. In addition, there was an unreconciled variance of \$135,443 between the rates debtor listing provided by the Council and the amount reflected in the financial statements. As a result I was unable verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of the rates debtors, advance to parking meter, income and advance, and provision for doubtful debts at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>In addition, the Council provided for \$95,015 of doubtful debts, while the trade and other receivables listing provided by the Council indicated that \$711,383 or 63% of the trade and other receivables balance are long outstanding and may be impaired. Accordingly, the provision for doubtful debts is inadequate, and therefore, I am unable to ascertain whether the trade and other receivables of \$1,120,468 has been fairly stated in the financial statements.</p> <p>2. The Council recorded VAT payable balance of \$155,296 in the statement of financial position as at 31 December 2017. There was an unreconciled variance of \$147,201 between the VAT reconciliation provided by the Council and the amount reflected in the financial statements. As a result, I am unable to ascertain whether the VAT payable balance of \$155,296 has been fairly stated in the financial statements.</p> <p>3. The Council recorded business, trading and other licenses income of \$154,219 in the statement of income and expenditure for the general fund account. The Council was unable to provide appropriate</p>

Municipal Council	Qualification Issues
	<p>supporting documents to support the above balances. As a result, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of business, trading and other licenses of at the end of the financial year and any corresponding adjustments to the elements making up the statement of comprehensive income and statement of financial position.</p> <p>4. The Council did not disclose restricted cash of \$1,121,020, capital commitments, and contingent liabilities, in the notes to the financial statements which is a non-compliance to the disclosure requirement of IFRS for SMEs.</p> <p>5. The Council was unable to provide supporting documentations to support balances reported in the statement of cash flows and note 16 to the financial statements. Consequently, I was unable to verify the completeness and accuracy of the balances and also unable to determine whether any adjustments might have been necessary in respect of the cash flow balances.</p>

Appendix B: Abridged Financial Statements

Sigatoka Town Council

Consolidated Abridged Statement of Income Statement

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Rates	356,706	361,324	347,564	357,613
Bus stand charges	14,937	13,731	13,204	13,245
Business license	124,225	116,462	115,454	113,849
Market fees	235,608	205,498	237,595	240,881
Garbage fees	103,202	110,020	117,337	128,832
Taxi stand fees	49,069	50,069	52,610	55,101
Parking meter	67,651	56,920	47,114	48,900
Others	436,428	394,738	181,684	304,594
Total Income	1,387,826	1,308,762	1,387,957	1,263,015
Administrative and operating costs	339,708	371,961	540,340	468,504
Capital expenditures	373,969	280,073	150,708	67,090
Depreciation	94,269	111,738	101,786	75,294
Employees' salaries and wages	569,419	532,815	498,935	528,732
Finance Cost	106,434	90,607	95,243	117,547
Total Expenditure	1,483,799	1,387,194	1,387,012	1,257,167
Operating (Deficit)/profit for the Year	(95,973)	(78,432)	945	5,848

Consolidated Abridged Statement of Financial Position

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Cash at bank and on hand	790,084	945,108	350,241	586,275
Term deposits	65,317	63,688	62,424	61,080
Debtors	120,306	128,795	119,892	109,243
Advances, prepayments and deposits	14,079	14,353	38,116	37,686
Property, plant and equipment	1,787,258	1,867,206	1,760,201	1,750,848
Total Assets	2,777,044	3,019,150	2,330,874	2,545,132
Bank overdraft	96,622	99,865	-	380,172
VAT payable	31,039	32,102	30,568	34,053
Employee entitlement	10,839	20,725	21,197	
Loan funds	1,058,755	1,132,461	1,200,638	1,302,233
Creditors and other accruals	52,242	86,649	111,712	
Sundry deposits	63,717	62,517	60,317	115,347
Lease liability	-	7,620	22,878	
Deferred income	1,289,715	1,307,891	536,618	415,835
Income received in advance	41,808	41,039	48,509	
Total Liabilities	2,644,737	2,790,869	2,032,437	2,247,640
Net Assets	132,307	228,281	298,437	297,492

Ba Town Council

Consolidated Abridged Statement of Income Statement

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Rates	472,614	472,615	485,623	505,711
Fees, charges and rent	1,422,232	1,403,431	1,411,213	1,279,231
Others	162,039	352,600	201,187	668,035
Total Income	2,056,885	2,228,646	2,098,023	2,452,977
Administrative and operating costs	1,419,806	1,155,051	1,091,863	1,310,237
Capital expenditures	269,036	255,558	238,499	520,439
Depreciation	241,266	228,828	251,111	249,459
Finance Cost	95,075	100,485	104,836	331,345
Total Expenditure	2,025,183	1,739,922	1,686,309	2,411,480
Operating (Deficit)/profit for the Year	31,702	488,724	411,714	41,497

Consolidated Abridged Statement of Financial Position

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Cash at bank and on hand	2,036,331	2,051,151	455,595	133,366
Trade and other receivable	1,120,468	1,197,768	1,025,188	1,003,009
Property, plant and equipment	17,305,134	17,010,232	16,771,225	16,734,321
Total Assets	20,461,933	20,259,151	18,252,008	17,870,696
Trade and other payables	453,219	433,846	469,164	535,607
Borrowings	2,155,377	2,295,475	2,472,586	2,681,321
Provisions	46,288	35,511	44,379	26,491
Deferred income	1,997,094	1,716,066	277,743	50,854
Total Liabilities	4,651,978	4,480,898	3,263,872	3,294,273
Net Assets	15,809,955	15,778,253	14,988,136	14,576,423

Labasa Town Council

Consolidated Abridged Statement of Income Statement

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Rates	876,008	781,131	527,674	822,881
Fees, charges and rent	839,773	865,824	801,194	791,821
Business license	164,902	173,997	127,500	213,667
Others	246,470	220,945	242,677	229,430
Total Income	2,127,153	2,041,897	1,699,045	2,064,451
Administrative and operating costs	334,638	307,835	505,577	496,370
Capital expenditures	1,026,059	714,064	627,199	492,294
Depreciation	173,588	197,489	173,377	94,828
Employees' salaries and wages	731,711	625,414	557,240	517,366
Finance Cost	2,956	2,383	3,597	2,870
Total Expenditure	2,268,952	1,847,185	1,866,990	1,603,728
Operating (Deficit)/profit for the Year	(141,799)	194,712	(167,608)	460,723

Consolidated Abridged Statement of Financial Position

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Cash at bank and on hand	781,577	1,067,684	1,003,384	914,861
Receivables	1,549,923	1,341,099	1,129,491	1,353,067
Prepayments and other receivables	91,285	86,304	94,761	63,948
Property, plant and equipment	8,041,631	8,002,359	8,039,936	7,486,334
Total Assets	10,464,416	10,497,445	10,267,572	9,818,210
Accounts payable	423,571	426,505	386,442	324,331
Employee entitlement	10,714	22,190	8,808	8,808
Non-current liabilities	895,268	929,674	951,333	396,474
Total Liabilities	1,329,553	1,378,369	1,346,583	729,613
Net Assets	9,134,863	9,119,076	8,920,989	9,088,597

Rakiraki Town Council

Consolidated Abridged Statement of Income Statement

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Rates	65,046	92,699	42,103	57,455
Fees, charges and rent	174,378	175,277	160,272	211,989
Grant	3,702,844	126,000	221,050	-
Others	80,990	36,745	36,621	6,231
Total Income	4,023,258	430,721	460,046	275,675
Administrative and operating costs	140,701	161,017	153,543	158,326
Capital expenditures	107,021	228,768	107,406	16,683
Depreciation	62,797	89,185	82,176	106,263
Employees' salaries and wages	205,821	156,655	152,741	129,241
Finance Cost				
Total Expenditure	516,340	635,625	495,866	410,513
Operating (Deficit)/profit for the Year	3,506,918	(204,904)	(35,820)	(134,838)

Consolidated Abridged Statement of Financial Position

	2017 (\$)	2016 (\$)	2015 (\$)	2014 (\$)
Cash at bank and on hand	1,144,859	34,055	153,140	15,491
Trade and other receivables	326,274	147,327	95,859	167,071
Property, plant and equipment	2,677,239	478,037	493,336	567,753
Total Assets	4,148,372	659,419	742,335	750,315
Trade and other payables	166,220	184,185	62,197	34,357
Total Liabilities	166,220	184,185	62,197	34,357
Net Assets	3,982,152	475,234	680,138	715,958

Appendix C: Audits not completed as at 28 August 2019

Council	Last year audited	Audits delayed (Years)	Comments
1.Suva City Council	2011	6	2012-2015 audit conduct completed and are being finalized. 2016 – 2018 draft financial statements yet to be received for auditing
Lami Town Council	2013	4	2014 audit currently in progress. 2015-2018 draft financials are yet to be received
Sigatoka Town Council	2017	Nil	2018 audit conduct completed and is in finalization stage
Nadi Town Council	2014	3	2015 audited accounts sent for signing. 2016 – 2018 draft financial statements yet to be received for auditing.
Lautoka City Council	2013	4	2014 audit conduct was completed however was suspended. Client is in the process of resubmitting the financial statements. 2015 – 2018 draft financial statements are yet to be received.
Ba Town Council	2017	Nil	2018 draft financial statements yet to be received.
Tavua Town Council	2013	4	2014 audit is currently being finalized. 2015 – 2018 draft financial statements are yet to be received.
Rakiraki Town Council	2017	nil	2018 draft financial statements received
Levuka Town Council	2011	6	2012 – 2015 draft financial statements received on 28/9/18 and audit is yet to be commenced
Nausori Town Council	2013	4	2014 audit is currently being finalized. 2015 – 2017 will be resubmitted. 2018 draft financial statements yet to be received.
Nasinu Town Council	2009	8	2010 – 2012 audit conducted completed and are being finalized.

Council	Last year audited	Audits delayed (Years)	Comments
			2013 audit is yet to be commenced. The Council has indicated that it will resubmit the draft financials. 2014 – 2018 draft financial statements are yet to be received.
Labasa Town Council	2017	Nil	2018 draft financial statements yet to be received from the client.
Savusavu Town Council	2010	7	2011 – 2015 draft financial statements received on 20/2/19 and audit is yet to be commenced.

Appendix D: Audit Opinion Results

The following table presents the type of audit opinion issued following our audit of 2014 – 2017 financial statements for Municipal Councils.

Entity	Audit opinion type
31 December 2014	
Labasa Town Council	Modified
Ba Town Council	Modified
Rakiraki Town Council	Disclaimer
Sigatoka Town Council	Unmodified
31 December 2015	
Labasa Town Council	Modified
Ba Town Council	Modified
Rakiraki Town Council	Disclaimer
Sigatoka Town Council	Unmodified
31 December 2016	
Labasa Town Council	Modified
Ba Town Council	Disclaimer
Rakiraki Town Council	Disclaimer
Sigatoka Town Council	Unmodified
31 December 2017	
Labasa Town Council	Modified
Ba Town Council	Disclaimer
Rakiraki Town Council	Disclaimer
Sigatoka Town Council	Modified

Appendix E: Responses from entities

We provided a copy of this report to the Permanent Secretary for Local Government for comments.

A copy of the request and responses received as at 28 August 2019 are shown below.



Ministry of Local Government

Level 3, FFA House
4 Gladstone Road
Box 2131, Government Buildings, Suva, Fiji

Phone No : 3309-917
: 3304-364
Fax No : 3303-515

28th August, 2019

The Auditor General
Office of the Auditor General
Ratu Sukuna House
Suva



Your File: 625/2

Re: AUDIT REPORT ON MUNICIPAL COUNCILS FOR 2014-2017

Thank you for your letter dated 22 August 2019 on the above.

Please find attached the Ministry of Local Government's response as per recommendations of the Auditor General on page 25 of the report.

Submitted for consideration.

Thank you,

A handwritten signature in blue ink, appearing to read 'Dimity Pifer'.

Dimity Pifer
Permanent Secretary for Local Government

Audit Report of Municipal Council 2014 – 2017

We refer to the Special Governance Audit carried out by the Office of the Auditor General for years 2014 to 2017.

We note the recommendations of the Auditor General on page 25 of the report and submit below Response to the Recommendations:

Response to Recommendation 8.1

The Governance structure shall be continued to be improved. In addition, to existing consent requirements in the areas of Human Resource and Procurements, a Financial and Human Resource Policy manual shall be finalized during the year 2019-20. The new Chief Executive Officers of each Municipal Council shall be appointed in line with the Local Government Review Report recommendations and Higher Salaries Commission Act to ensure that the position holders understand Municipal Governance. There shall be an induction of Special Administrators with an aim to ensure a governance model overseeing operational management is implemented. The Director of Local Government shall continue working closely with Office of the Auditor General and Municipal Councils in strengthening Governance at the local level.

Response to Recommendation 8.2

Ministry has established a program with Municipal Councils to forward all outstanding annual audits to Office of the Auditor General. Our records show that 23 Municipal Council audits are currently being audited and 34 are being compiled by Councils. To accelerate this work all Councils have been informed to submit in consolidated form and not to wait for previous year audit finalizations. This practice has been sighted as a cause of unnecessary delay.

Our records show that compared to 2016 we now have:

- Four compared to one Municipal Council audit brought to current
- Five compared to one having audits outstanding for 3 years
- Five compared to 11 having audits outstanding to more than 3 years.

Fortnightly updates are being sent by the Director of Local Government to Municipal Councils and by 30th November, 2019 all Municipal Councils are expected to forward all outstanding annual accounts.

Response to Recommendation 8.3

A rates collection policy has been prepared and submitted to Municipal Councils. Area of challenge noted has been residential rates and a rates amnesty period has been organized in this area. At the end of the amnesty 31 August, 2019 all efforts shall be made including the use of legal processes by Municipal Councils, subject to Municipal Council resolutions, to collect outstanding rates.

1

Response to Recommendation 8.4

Ministry for Local Government has been promoting accounting staffs to attend FIA workshops and keep in line with IFRS updates. All Senior Accounting staffs have been informed to upgrade accounting systems to be at par with IFRS. The transition of information to IFRS took time and adaptation in 2016. Currently, all annual outstanding audits are being finalized.

Response to Recommendation 8.5

The Director of Local Government shall be working closely with Municipal Councils to develop internal control mechanisms and risk control management systems. A workshop is planned during this fiscal year.

Response to Recommendation 8.6

This recommendation will be taken on board and further discussed with Office of Auditor General during the month of September, 2019. Recommendations as suggested to strengthen will be taken on board.

Response to Recommendation 8.7

This recommendation will be taken on board. We have a National Disaster Management Act and Councils will be informed to work closely with Divisional Commissioners to have review disaster operation plans. Risk Management policies will be reviewed in consultation with Office of the Auditor General.

Response to Recommendation 8.8

As per budgeting upgrade strategies, the new Council budget planning exercise shall commence during the month of September for next year 1/9/19. Councils have been encouraged to shift away from linear based budgeting to program based budgeting. We have noted that accrual budget technique has a potential challenge where commitments would be made based on forecasted revenue and there is a potential cash flow risk. To improve in this area matching concept principle has been promoted at Municipal Council level.

OFFICE OF THE AUDITOR GENERAL

Excellence in Public Sector Auditing



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File: 625/2

22 August 2019

Ms. Dimity Fifer
Permanent Secretary
Ministry of Local Government
FFA House
4 Gladstone Road
SUVA.

Dear Ms. Fifer

AUDIT REPORT ON MUNICIPAL COUNCILS FOR 2014 - 2017

Attached is the draft report on audit of Municipal councils for 2014 -2017 which I intend to submit to the Honorable Minister for Economy for tabling in Parliament. You will note that comments received from councils has already been incorporated in the report where appropriate.

The draft report is submitted for your information and comments (if any) which we expect to receive by 28 August 2019. Comments provided would be included in an appendix to the report. Therefore, we will be grateful if any further comments are limited to one page only.

We trust that you will keep the contents of the report confidential.

Yours sincerely

Ajay Nand
AUDITOR-GENERAL

Encl.

Appendix F: Glossary

Term	Definition
Abridged Financial Statements	Summarized version of the detailed financial statements.
Accountability	Responsibility of Municipal Councils to achieve their objectives in reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws.
Accuracy	Correct amount for all transactions were recorded in correct accounting period.
Assessment for impairment	Assessment done to ensure that an entity's assets are not carried at more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use)
Audit evidence	A difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
Audit strategy	The strategy that sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan
Completeness	All transactions were recorded
Deferred income	Deferred income refers to money received by an entity before it provides the related goods or services to the customer.
Deficiencies	Failing, weakness or shortcoming
Depreciation	The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.
Draft Management Letter	Management Letter highlighting areas where improvements can be made by an entity following an audit.
Estimated useful lives	Estimated lifespan of a depreciable fixed asset, during which it can be expected to contribute to an entity's operations
Existence	All account balances exist for assets, liabilities and equity.
Express an opinion	A written expression of the auditor's overall conclusion on the financial report based on audit evidence obtained.
Fraud	An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
Governance	Governance is defined as the manner in which those in vested

	authority uses its powers to achieve the institution's objectives, including its powers to design, implement and innovate the organization's policies, rules, systems and processes and to engage and involve its stakeholders.
Governing bodies	A body of persons or officers having ultimate control. They are constituted for the purpose of administration.
International Financial Reporting Standards	Standards adopted by Fiji Institute of Accountants for financial reporting by large and medium entities in Fiji.
Management	Those with the executive responsibility for conducting an entity's operations.
Management services	Organization and coordination of the activities of a business done by another person or entity outside the business.
Material misstatement	A significant difference between the amounts, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
Materiality	This relates to the size or nature of the item or error judged in the particular circumstances of its omission or misstatement. Information is material if its omission or misstatement could influence the economic decisions of users, taken on the basis of the financial statements.
Misstatement	A difference between the amounts, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.
Other significant matters	<p>Include control weaknesses which <i>could cause</i> or <i>is causing</i> severe disruption of the process or severe adverse effect on the ability of an auditee to achieve process objectives and comply with relevant legislation.</p> <p>It is likely that these issues may have an impact on the operations of the entities in future, if necessary action is not taken to address them.</p>
Reasonable assurance	A high but not absolute level of assurance
Revaluation	The action of assessing the value of something again.
Risks	The probability or threat of quantifiable damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities, and that may be avoided through preemptive action

Sexennial valuation	Valuation carried out on the unimproved property of the rate payer every six years. This usually determines the current rate that needs to be levied to the rate payer.
Standards on auditing	International Standards on Auditing adopted by Fiji Institute of Accountants and applied by Office of the Auditor-General for audits carried out.
Municipal Council	Includes Towns, Cities and District and its establishment is defined by the Local Government Act.
Leasehold land	Real property held by a tenant (lessee) under a lease for a fixed term, after which it is returned to the owner (the lessor).
Valuation	The process of determining the fair value of an asset.
Value-adding	Financial or non-financial gains arising from improved compliance or mitigation of risks.
Work in progress	The total value of the materials and labor for unfinished projects.
Written- down value	The value of an asset after accounting for depreciation or amortization.



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