



OFFICE of the AUDITOR GENERAL
Republic of Fiji

REPORT OF THE AUDITOR-GENERAL OF THE REPUBLIC OF FIJI

2018 Audit Report on Economic Services Sector





OFFICE *of the* AUDITOR GENERAL
Republic of Fiji

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File: 102

15 November 2019

The Honorable Ratu Epeli Nailatikau
Speaker of the Parliament of the Republic of Fiji
Parliament Complex
Gladstone Road
SUVA.

Dear Sir

2018 AUDIT REPORT ON ECONOMIC SERVICES SECTOR

In accordance with section 152(13) of the Constitution of the Republic of Fiji, I am pleased to transmit to you my report on the Economic Services Sector for 2018 excluding Head 31 – Ministry of Fisheries, Head 32 – Ministry of Forests, Head 33 – Ministry of Lands and Mineral Resources, Head 36 – Ministry of Public Enterprise, Head 37 – Ministry of Local Government and Housing and Head 38 – Ministry of Environment.

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 the Republic of Fiji. Its roles and responsibilities include audit of the accounts of the Consolidated Fund and whole of Government financial statements and annual appropriation statement required to be included in the whole of Government annual report for a financial year under the *Financial Management Act 2004*. The audit extends to the accounts of all money received or held by a State entity, whether or not for purposes of Government. 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.

As a result of its mandate, the Office of the Auditor-General has a distinctive view of the entire public sector of matters affecting financial and non-financial performance. We use this perspective to achieve our vision of excellence in public sector auditing by providing comprehensive analysis and value-adding recommendations.

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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1.0 Sector Summary

All ministries and departments prepare annual agency financial statements. Permanent Secretaries and management of these agencies are responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards Cash Basis and requirements of *Finance Management Act 2004* and other 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 report includes the audit for agencies completed as at 31 October 2019:

The General Administration Sector includes:

Head 01	Office of the President
Head 02	Office of the Prime Minister and Immigration
Head 03	Office of the Attorney-General
Head 05	Ministry of iTaukei Affairs
Head 06	Ministry of Defence & National Security
Head 07	Ministry of Employment, Productivity and Industrial Relations
Head 08	Ministry of Foreign Affairs

Head 09 Independent Bodies:

Office of the Auditor General
Judiciary Department
Parliament Office
Office of the Director of Public Prosecutions

Head 13	Independent Commissions
Head 15	Ministry of Justice
Head 15A	Fiji Corrections Service
Head 16	Ministry of Communication
Head 16A	Department of Information Technology and Computing Services
Head 17	Ministry of Civil Service
Head 18	Ministry of Rural and Maritime Development
Head 19	Republic of Fiji Military Forces
Head 20	Fiji Police Force
Head 49	Peacekeeping Missions

The Social Services Sector includes:

Head 24	Ministry of Women, Children and Poverty Alleviation
Head 25	Ministry of Youth and Sports

The Economic Services Sector includes:

Head 30	Ministry of Agriculture
Head 34	Ministry of Industry, Trade and Tourism
Head 35	Ministry of Sugar

The Infrastructure Sector includes:

Head 40	Ministry of Infrastructure and Transport
Head 41	Water Authority of Fiji
Head 42	Ministry of Waterways
Head 43	Fiji Roads Authority

It is important to note that the deficiencies highlighted in this report were identified during our audit and may have been subsequently resolved. These have been included in this report as they impacted on the overall system of control of the ministries and departments as at 31 July 2018.

Results of Our Audits

Head(s)	Agency	Date Acceptable Draft Accounts Received for Audit	Audit Status as at 31/10/19
General Administration Sector			
04,50,51 & 52	Ministry of Economy	31/10/18	Audit conduct in progress.
	2017-2018 Financial Statements of Government	Outstanding	Draft 2018 Financial Statements of Government are yet to be submitted for audit.
09	Fijian Elections Office	22/10/19	The first draft 2018 Financial Statements was received on 02/07/19. Due to errors and omissions, a second draft was submitted on 22/10/19. Audit yet to commence.
14	Ministry of Disaster Management and Meteorological Services	07/03/19	Audit completed with audited financial statements issued for signing on 24/10/19.
Social Services Sector			
21 & 26	Ministry of Education, Heritage and Arts Higher Education Institutions	27/03/19	Draft management letter sent for comments on 21/10/19. Comments yet to be received.
22	Ministry of Health and Medical Services	18/02/19	Audit in finalization stage.
23	Department of Housing	19/08/19	Audit in finalization stage.
Economic Services Sector			
31	Ministry of Fisheries	25/01/19	Audit conduct in progress.
32	Ministry of Forestry	28/11/19	Audit conduct in progress.
33	Ministry of Lands and Mineral Resources	23/04/19	Audit conduct completed with exit meeting held on 21/10/19. The Ministry is working on to resolve the audit findings.
36	Ministry of Public Enterprises	31/10/18	Audit completed with audited financial statements issued for signing on 18/06/19.
37	Ministry of Local Government	20/02/19	Draft management letter sent for comments on 25/10/19.
38	Ministry of Environment	20/02/19	Draft management letter sent for comments on 21/10/19.
Infrastructure Sector			
41	Water Authority of Fiji	06/03/19	2017 and 2018 draft account submitted together. 2017 audit in finalization stage. 2018 FS received and yet to be audited.
43	Fiji Roads Authority	22/11/18	Audit for 2018 financial statements in finalization stage.

As at 31 October 2019, we issued audit opinions on 29 agency financial statements of ministries and departments for the 2017-2018 financial year.

Audit of 15 agencies have been delayed. The delay in audits of agencies were primarily due to the following:

- Delay in submission of acceptable draft accounts for audits;
- As a result of delay in submission of acceptable draft accounts for audit, the assigned resources were diverted to other audits for which accounts were received on time;
- Relevant information/records not provided for audit on a timely basis;
- Entities deciding to address issues raised in draft audit reports and resubmission of financial statements for audit; and
- The delay in the finalization of the 2016/2017 Financial Statements of Government affected resource to some extent as officers continuously had to be re-engaged in the audit.

Efforts are being made to complete the audit of the agencies. Details of status of pending audits are provided in table below.

Quality and Timelines of Financial Statements

The submission of acceptable financial statements for audit were generally delayed. However, the quality of agency financial statements have largely improved. We issued unmodified opinions on 22 agency financial statements out of the 29 audited for financial year 2017-2018.

In accordance with International Standards on Auditing, we express an *unmodified opinion* (unqualified) when the financial statements are prepared in accordance with the Financial Management Act 2004, Financial Management (Amendment) Act 2016, Finance Instructions 2010, Finance (Amendment) Instructions 2016 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.

Figure 1 – Comparison of Independent Audit Reports issued for 2017-2018 and 2016-2017 financial year

Financial Year 2017 - 2018	Unmodified Opinion	Modified Opinion		Financial Year 2016 - 2017	Unmodified Opinion	Modified Opinion
Number of audits	22	7		Number of audits	20	8
Percentage of total	76%	24%		Percentage of total	71%	29%

Source: Office of the Auditor-General (detailed comparison is provided in Appendix B – Audit Opinion Results)

Majority of the ministries and departments audited as at 31 October 2019 submitted the draft financial statements for 2018 well after the deadline of 31 October 2018 set by Ministry of Economy. Only a few agencies submitted of their draft financial statements on or before the deadline. The efforts of the agencies which submitted the draft financial statements for audit on time are commended.

The draft financial statements for 2017-2018 of 21 or 69% of ministries and departments were not adjusted during our audit. The remaining financial statements were adjusted through audit adjustments.

2.0 Types of audit opinions issued

In accordance with International Standard on Auditing, we express an *unmodified opinion* (unqualified) when the financial statements are prepared in accordance with the Financial Management Act 2004, Financial Management (Amendment) Act 2016, Finance Instructions 2010, Finance (Amendment) Instructions 2016 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 agency.

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.

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.

3.0 Current approach on reporting to Parliament

On 5 February 2019, we reported the results of our audits for Ministries and Departments for financial year 2016-2017 by budget sectors when all audits (except for Ministry of Economy and Financial Statements of Government which were reported subsequently) were completed. This affected the timeliness of our reporting of audits completed to Parliament. To address this, audits of Ministries and Departments for financial year 2017-2018 which were completed as at 31 October 2019 have been included in this report.

Audit reports on audit of Ministries and Departments for financial year 2017-2018 which are subsequently completed will be included in separate reports to Parliament.

We will continue to work with Permanent Secretaries and Heads of Departments to further improve the timely completion of audits so that these can be reported to Parliament.

Introduction

Each year, we audit the financial statements of State-agencies to provide assurance to their reliability.

Ministry of Economy advised all State agencies to provide the draft 2018 agency financial statements to the Auditor-General by 31 October 2018. If agencies comply with the monthly and quarterly reporting requirements set by *Finance Instructions 2010* throughout the year, the agencies should be able prepare high quality financial statements in a timely manner.

We assessed the quality and timeliness of financial statements prepared by 29 agencies for financial year ended 31 July 2018 by considering:

- year-end closing process – whether accounts were closed-off on the agreed date.
- timeliness – whether complete draft 2018 financial statements were submitted for our audit by an agreed date.
- quality – the extent of accounting adjustments made during our audit.

Our assessment criteria and the result of our assessment for each ministry/department is included in Appendix A.

Conclusion

A total of 29 ministries and departments were audited as at 31 October 2019. Of these, unqualified audit reports were issued on 22 financial statements while audit reports for 7 financial statements were qualified.

It is evident from the audit that more concert efforts need to be taken to streamline year-end account closing process, improve on the timeliness of submission of draft financial statements for audit, and provision of management comments with signing of audited financial statements in a timely manner.

It is imperative that the Heads of Ministries and Departments take proactive actions to address the issues raised in this report and also improve on year-end account closing process, and improve on timeliness of provision of management comments and signing of audited financial statements.



Ajay Nand

AUDITOR-GENERAL

DATE: 15/11/19

4.0 Audit Opinion results

Table A summarizes the audit opinions we issued on the 2017-2018 financial statements for State-agencies.

Table A - Audit opinions issued by OAG as at 31/10/19 for 2017-2018 financial year

Unmodified opinions	Modified opinions
22	7

Modified opinions

We issued modified opinions on 7 of the 2018 financial statements audited for various ministries and departments on the following grounds:

1.0 Department of Immigration

- A variance of \$515,175 exists between the Integrated Border Control Management System (IBMS) which records the Department of Immigration's operating revenue and the FMIS general ledger.
- Detailed listings of work permit holders for whom security bond totaling \$28,724,628 was held in trust as at 31 July 2018 were not substantiated by the Department of Immigration.
- An unreconciled variance of \$125,618 exists between the Immigration Bond Trust Fund Account cash at bank balance and the General Ledger (FMIS) balance.
- The Department of Immigration was unable to provide appropriate supporting documents including payment vouchers to substantiate payments totaling \$272,985 which were made from its Operating Account.

2.0 Ministry of Employment, Productivity and Industrial Relations

- The Ministry received a sum of \$60,000 from Ministry of Civil Service under the Shared Services Agreement. The Ministry receipted the service fees into the OHS Consultancy Trust Fund Account instead of the Consolidated Fund Account. Transfer of public funds into a trust account is improper as funds in trust are those funds other than public money.
- Proper reconciliation of trust accounts for the National Employment Centre, Employment Relations Tribunal, Occupational Health and Safety, Workmen Compensation, Wages Dispute and OHS Consultancy Trust Fund Accounts were not done. Proper cash books were not maintained for the trust accounts, satisfactory explanations were not provided for variances totaling \$119,783, stale cheques were not cleared and receipts and payments were not posted in the general ledger on a timely basis.

3.0 Judicial Department

Significant lapse in reconciliations were noted and there was absence of detailed breakdown listings of beneficiaries and their current balances. As such, the accuracy of the closing balance

of \$31,681,497 disclosed in the Judicial Trust Fund account Statement of Receipts and Payments for the year ended 31 July 2018 could not be ascertained.

4.0 Ministry of Rural and Maritime Development

Included in the Provincial Trust Fund Accounts are funds received for Rural Housing Scheme 1 totaling \$1,173,893 and one-third self-help projects totaling \$553,611. However, the Ministry did not maintain listing to show detailed breakdown of funds held.

5.0 Fiji Police Force

The Force did not include as part of its agency financial Statements the Trust Fund Account Statement of Receipts and Payments for the Force Band Trust Fund Account. Receipts totaling \$84,542 and payments amounting to \$66,485 were made from the account for the period ended 31 July 2018. In addition, the Force Band account transactions were not recorded in the FMIS General Ledger.

6.0 Ministry of Women, Children and Poverty Alleviation

- Statement of Receipts and Expenditure includes Operating Grants and Transfers balance of \$89,639,571 which comprises of payments made for Social Pension Scheme of \$37,116,301, Poverty Benefit Scheme of \$40,102,286, and Food Vouchers for Rural Pregnant Mothers of \$966,152 and Child Protection Allowance of \$7,062,188. An unreconciled variance of \$8,802,261 exists between the General Ledger balance of \$85,246,927 and the amount released to bank of \$76,444,666 for the year ended 31 July 2018.
- Mispostings in Travel and Communication expenditure by \$204,579 and Purchase of Goods and Services expenditure by \$735,010 resulted in overstatement of the respective operating expenditure. Moreover, mispostings in Operating Grants and Transfers expenditure resulted in understatement of the account by \$944,262 for the year ended 31 July 2018. The Ministry was unable to process the adjustment due to insufficient funds in the respective Standard Expenditure Groups.

7.0 Ministry of Infrastructure and Transport

- An unreconciled variance of \$1,405,134 exists between the Consolidated TMA balance sheet cash at bank balance of \$3,303,882 and consolidated bank reconciliation balance of \$1,898,748 as at 31 July 2018. Consequently, the accuracy and completeness of the Cash at bank balance of \$3,303,882 stated in the Consolidated TMA balance sheet as at 31 July 2018 could not be confirmed.
- The Energy Trust Account had a balance of \$2,445,195 as at 31 July 2018. The closing balance comprises of refunds for FEA Grid and House wiring, bond payment for projects and revenue bills collected from Solar Home Systems. The Ministry has not maintained appropriate details of this Trust Fund account.

Unmodified opinions

We issued unmodified opinions on 22 or 76% of the 2018 financial statements which were audited for various ministries and departments. This means that material misstatements were not noted in majority of the agencies which were audited.

Quality of draft agency financial statements

The extent of audit adjustments made to draft financial statements indicates the effectiveness of the agency's internal review processes to identify and correct errors before these are provided for audit.

Twenty One (21) ministries and departments prepared good quality draft financial statements that did not require any adjustments.

Adjustments passed on draft financial statements for Six (6) ministries and departments were not material. While most material adjustment was made for financial statements of three (3) ministries and departments.

Timeliness of financial reporting

To be useful to users, financial statements should be completed and made available as soon as possible after close of financial year. Information in financial statements becomes less relevant to users as the time passes from close of financial year. The deadline set by Ministry of Economy for submission of draft financial statements was 31 October 2018.

Table B - Agencies which met or missed the agreed timeline for submission of draft financial statements.

Timeline Met	Timeline not Met
<ol style="list-style-type: none"> Office of the Attorney General Ministry of Foreign Affairs Office of the Auditor General Office of the Director of Public Prosecutions Fiji Independent Commission Against Corruption Fiji Military Force 	<ol style="list-style-type: none"> Judiciary Department Ministry of Justice Parliament Office Ministry of Civil Service and Public Service Commission Fiji Corrections Services Ministry of Rural and Maritime Development and National Disaster Management Fiji Police Force Ministry of Communication Office of the President Office of the Prime Minister and Immigration Ministry of i-Taukei Affairs Ministry of Defence, National Security Ministry of Employment, Productivity and Industrial Relations Department of Information Technology and Computing Services Ministry of Youth and Sports Ministry of Sugar Ministry of Industry, Trade and Tourism Ministry of Waterways Ministry of Agriculture Ministry of Women, Children and Poverty Alleviation Ministry of Infrastructure and Transport Peacekeeping Missions

Year-end closing process

On 12 June 2018, Permanent Secretary for Economy issued Circular No. 03/2018 to Permanent Secretaries, Heads of Departments, High Commissioners and Ambassadors in Fiji Overseas Missions in which procedures for closing of 2018 accounts and times were detailed.

The key focus areas in the circular were:

- Closing date for journal adjustments by 10 August 2018
- Clearance of inter-departmental clearance accounts by 3 August 2018
- Monitoring of un-presented cheques by 31 July 2018
- Clearance of stale cheques by 22 August 2018
- Annual Board of Survey on Drawings Account cheques by 22 August 2018
- Retirement of imprests by 20 July 2018
- Cancellation of unprocessed purchase orders by 27 July 2018
- Processing of payments by 31 July 2018 and virements by 20 July 2018
- Completion of reconciliations by 29 August 2018
- Submission of arrears of revenue returns by 31 August 2018

When ministries and departments achieve the key focus areas highlighted by the Permanent Secretary for Economy by the given dates, they are more likely to prepare accurate and timely draft financial statements for audit.

Nine or 31% of the Ministries and Departments under the General Administration sector achieved all the key focus areas for closing of accounts set by Ministry of Economy while 20 or 69% managed to achieve 5 of 9 key processes within two weeks of due date.

Appendix A: Assessment of financial governance

This section evaluates the effectiveness of the internal controls maintained by 21 ministries and departments.

Internal controls are processes designed and implemented by Permanent Secretaries, Heads of Departments and other personnel of ministries and departments to provide reasonable assurance about the achievement of a ministry or department's objectives with regard to reliability of financial reporting effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "control" refers to any aspects of one or more components of internal control.

Permanent Secretaries, Heads of Departments and other personnel of ministries and departments are responsible for the preparation of the financial statements in accordance with the Financial Management Act 2004, Financial Management (Amendment) Act 2016 and Finance Instructions 2010, and for such internal control as they determine is necessary to enable preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Internal control issues noted during our audit are reported to the Permanent Secretary or Head of Department of ministries and departments.

Internal control framework

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.

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.

Internal controls

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.
- **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.

- **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 technological environment.
- **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.
- **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.

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

Preparation of draft 2017-2018 agency financial statements

On 12 June 2018, Permanent Secretary for Economy issued Circular No. 03/2018 to Permanent Secretaries, Heads of Departments, High Commissioners and Ambassadors in Fiji Overseas Missions in which procedures for closing of 2018 accounts and times were detailed.

The key focus areas in the circular were:

- Closing date for journal adjustments by 10 August 2018
- Clearance of inter-departmental clearance accounts by 3 August 2018
- Clearance of stale cheques by 22 August 2018
- Annual Board of Survey on Drawings Account cheques by 22 August 2018
- Retirement of imprests by 20 July 2018
- Cancellation of unprocessed purchase orders by 27 July 2018
- Processing of payments by 31 July 2018 and virements by 20 July 2018
- Completion of reconciliations by 29 August 2018
- Submission of arrears of revenue returns by 31 August 2018

When ministries and departments achieve the key focus areas highlighted by the Permanent Secretary for Economy by the given dates, they are more likely to prepare accurate and timely draft financial statements for audit.

Rating	Year-end close process assessment
● Effective	All 9 key processes completed by due date
● Generally effective	Five of 9 key processes completed within two weeks of due date
● Ineffective	Less than five of 9 key processes completed within two weeks of due date

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 impact these adjustments had on the total expenditures, operating results or net assets of the entity subject to our audit.

Rating	Quality of draft financial statements assessment
● Effective	No adjustments were required
● Generally effective	Adjustments on total expenditure, operating results/net assets were less than one percent
● Ineffective	Adjustments on total expenditure, operating results/net assets were more than one percent

Timeliness of draft financial statements for entities

To assess the timeliness of acceptable draft financial statements, we have compared the date the draft financial statements were due and the date it was received.

Rating	Timeliness of draft financial statements assessment
● Effective	Acceptable draft financial statements received before or on 15 October 2018
● Generally effective	Acceptable draft financial statements received on or before 31 October 2018
● Ineffective	Acceptable draft financial statements received after 31 October 2018

Timeliness of Provision of Management Comments and Signing of Financial Statements

To assess the timeliness of provision of management comments and signing of financial statements, we have compared the date the draft management letter and audited financial statements were issued to entity and the date management comments and signed accounts were received.

Accordingly, we have assessed timeliness for *General Administration Sector* as:

Rating	Timeliness of Management Comments Received
● Effective	Within 14 days from issue of Draft Management Letter
Rating	Timeliness of Signed Financial Statements Received
● Ineffective	After 15 days from issue of Financial Statements for signing

Result summary

The following table summarizes our assessment of controls, the 2016-2017 financial statement preparing processes and responses to the Office of the Auditor-General across the ministries and departments in the *General Administration Sector* which were subject to our audit.

Ministry or Department	Internal controls					Financial Statement Preparation			Responses to OAG	
	CE	RA	CA	IC	MA	T	YE	Q	MC	SFS
General Administration Sector										
1. Office of the President	★	★	★	★	★	★	★	★	★	★
2. Office of the Prime Minister	★	★	★	★	★	★	★	★	★	★
Department of Immigration	★	★	★	★	★	★	★	★	★	★
3. Office of the Attorney-General	★	★	★	★	★	★	★	★	★	★
5. Ministry of i-Taukei Affairs	★	★	★	★	★	★	★	★	★	★
6. Ministry of Defence and National Security	★	★	★	★	★	★	★	★	★	★
7. Ministry of Employment, Productivity and Industrial Relations	★	★	★	★	★	★	★	★	★	★
8. Ministry of Foreign Affairs	★	★	★	★	★	★	★	★	★	★
9. Independent Bodies										
Office of the Auditor-General	★	★	★	★	★	★	★	★	★	★
Judiciary	★	★	★	★	★	★	★	★	★	★
Parliament	★	★	★	★	★	★	★	★	★	★
Office of the Director of Public Prosecutions	★	★	★	★	★	★	★	★	★	★
13. Independent Commissions:										
Fiji Independent Commission Against Corruption	★	★	★	★	★	★	★	★	★	★
Public Service Commission	★	★	★	★	★	★	★	★	★	★
15. Ministry of Justice	★	★	★	★	★	★	★	★	★	★
15A Fiji Corrections Service	★	★	★	★	★	★	★	★	★	★
16. Ministry of Communication	★	★	★	★	★	★	★	★	★	★
16A Department of Information Technology & Computing Services	★	★	★	★	★	★	★	★	★	★
17. Ministry of Civil Service	★	★	★	★	★	★	★	★	★	★
18. Ministry of Rural and Maritime Development and National Disaster Management	★	★	★	★	★	★	★	★	★	★
19. Republic of Fiji Military Forces	★	★	★	★	★	★	★	★	★	★
20. Fiji Police Force	★	★	★	★	★	★	★	★	★	★
Social Services Sector										
24. Ministry of Women, Children and Poverty Alleviation	★	★	★	★	★	★	★	★	★	★
25. Ministry of Youth and Sports	★	★	★	★	★	★	★	★	★	★
Economic Services Sector										
30. Ministry of Agriculture	★	★	★	★	★	★	★	★	★	★
34. Ministry of Industry, Trade and Tourism	★	★	★	★	★	★	★	★	★	★
35. Ministry of Sugar	★	★	★	★	★	★	★	★	★	★
Infrastructure Sector										
40. Ministry of Infrastructure and Transport	★	★	★	★	★	★	★	★	★	★
42. Ministry of Waterways	★	★	★	★	★	★	★	★	★	★
49. Peacekeeping Missions	★	★	★	★	★	★	★	★	★	★

CE=Control Environment

RA=Risk Assessment

Q=Quality of draft financial statements

IC=Information and Communication Control

CA=Control Activities

YE= Year-end close processes

T=Timeliness of draft financial statements

MA=Monitoring Activities

MC=Management Comments provided

SFS=Signed Audited financial statements returned

Appendix B: Audit Opinion Results

The following table presents comparison of the results of our audit of 2017-2018 financial statements with the results of 2016-2017 audit for ministries and departments in the General Administration Sector.

Ministry/Department	2017-2018 Financial Year		2016-2017 Financial Year
	Date Audit Report Signed	Audit Opinion Type	Audit Opinion Type
General Administration Sector			
1. Office of the President	15/03/19	Unmodified	Unmodified
2. Office of the Prime Minister and Dept of Immigration	08/07/19	Modified	Unmodified
3. Office of the Attorney-General	29/03/19	Unmodified	Unmodified
5. Ministry of iTaukei Affairs	17/05/19	Unmodified	Unmodified
6. Ministry of Defence and National Security	29/07/19	Unmodified	Modified
7. Ministry of Employment, Productivity and Industrial Relations	18/07/19	Modified	Modified
8. Ministry of Foreign Affairs	02/10/19	Unmodified	Unmodified
9. Independent Bodies			
Office of the Auditor-General	19/10/18	Unmodified	Unmodified
Judiciary	12/07/19	Modified	Modified
Parliament	06/02/19	Unmodified	Unmodified
Office of the Director of Public Prosecutions	18/03/19	Unmodified	Unmodified
13. Independent Commissions:			
Fiji Independent Commission Against Corruption	20/12/18	Unmodified	Unmodified
Public Service Commission	02/08/19	Unmodified	Unmodified
15. Ministry of Justice	24/06/19	Unmodified	Modified
15A. Fiji Corrections Service	21/10/19	Unmodified	Unmodified
16. Ministry of Communication	20/06/19	Unmodified	Unmodified
16A. Department of Information Technology & Computing Services	17/10/19	Unmodified	Unmodified
17. Ministry of Civil Service	02/08/19	Unmodified	Unmodified
18. Ministry of Rural and Maritime Development and National Disaster Management	09/04/19	Modified	Modified
19. Republic of Fiji Military Forces	02/10/19	Unmodified	Modified
20. Fiji Police Force	22/05/19	Modified	Unmodified
Social Services Sector			
24. Ministry of Women, Children and Poverty Alleviation	31/10/19	Modified	Unmodified
25. Ministry of Youth and Sports	03/06/19	Unmodified	Unmodified
Economics Services Sector			
30. Ministry of Agriculture	20/06/19	Unmodified	Unmodified
34. Ministry of Industry, Trade and Tourism	22/05/19	Unmodified	Unmodified
35. Ministry of Sugar	24/05/19	Unmodified	Modified
Infrastructure Sector			
40. Ministry of Infrastructure and Transport	30/10/19	Modified	Modified
42. Ministry of Waterways	13/06/19	Unmodified with EOM	--- ¹
49. Peacekeeping Missions	31/10/19	Unmodified	Unmodified

¹ 2017 – 2018 financial year was first year audited.

Head 30**Ministry of Agriculture****Roles and Responsibilities**

The Ministry of Agriculture is responsible for supporting the livelihoods of ordinary Fijians who rely on farming (outside of sugarcane) by providing technical crop and livestock extension services and conducting research to develop innovative solutions for Fiji's agriculture sector. The Ministry has gradually moved from a Government led – or “top-down” – approach to a demand driven – or “bottom-up” – approach by listening and responding to the needs of farmers and capitalising on new market opportunities. The Ministry of Agriculture is also promoting farming as a business as opposed to farming as just a way of life. Farming has become a highly specialised skill, and the Ministry is working to pass proper training and assistance on to farmers to achieve results and be competitive in the market.

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PART A: FINANCIAL STATEMENTS

30.1 Audit Opinion

The audit of the 2018 accounts of the Ministry of Agriculture resulted in an unqualified audit opinion.

However, as reported under “other matter” paragraph, internal controls over payroll expenses, procurement processes and management of inventory for Trading Activity were generally found to be weak and if not addressed promptly may result in material misstatements and possible financial losses in the future.

30.2 Statement of Receipts and Expenditure

The Ministry collected revenue totalling \$947,800 and incurred a total expenditure of \$87,501,626 for the year ended 31 July 2018. Details are provided in Table 30.1.

Table 30.1: Statement of Receipts and Expenditure for 2018

Description	31 July 2018 (\$)	31 July 2017 (\$)
Agricultural Produce & Inspection Fees	1,478	339
License	35,035	41,075
Meat Inspection	15,427	19,280
Veterinary and Animal Quarantine	27,961	12,327
Sale of Sheep and Wool	8,385	30,126
Rest House	4,598	9,234
Rental for Quarters	52,080	61,084
Registration	4,984	6,943
Commission	20,898	24,227
Sale of Farm Produce	47,334	32,227
Clearance of previous years trust	---	41,476
Miscellaneous Revenue	678,239	280,751
Overpayment Recoveries	40,412	77,745
Board Member fees	5,208	---
Pound keeping	4,239	---
Sale of animals by auction	850	---
Water Charges	329	661
Rural electrification	343	718
Total Revenue	947,800	638,213
Established Staff	12,040,455	12,431,521
Government Wage Earners	4,951,495	5,444,014
Travel & Communications	780,664	774,032
Maintenance & Operations	2,029,814	2,113,395
Purchase of Goods & Services	593,641	624,846
Operating Grants & Transfers	3,635,078	3,169,595
Special Expenditure	3,743,734	2,289,910
Total Operating Expenditure	27,774,881	26,847,313
Capital Construction	14,916,823	17,474,568
Capital Purchases	1,239,252	1,078,114
Capital grants and transfers	41,564,300	8,596,684
Total Capital Expenditure	57,720,375	27,149,366

Description	31 July 2018 (\$)	31 July 2017 (\$)
Value Added Tax	2,006,370	2,144,617
Total Expenditure	87,501,626	56,141,296

The following factors contributed to the increase in balances for some account areas:

- The significant increase in revenue for the 2018 financial year is attributed to the increase in receipt of farmers' deposits on the various land preparation facility projects.
- Special expenditure increased by \$1,453,824 or 640% due to the hosting of the 34th FAO Regional Conference for the Asia and the Pacific in 2018 and the increase in IT operational support expenses for the Information Section.
- Capital grants and transfers increased in 2018 by \$32,967,616 or 384% due to the implementation of the Farm Care Initiative to assist those that were affected by Tropical Cyclone Josie and Tropical Cyclone Keni. In addition, the capital grant paid to the Agriculture Marketing Authority increased by \$1.6million and the Ministry had also facilitated the payments for the Committee on Better Utilisation of Land in 2018.

30.3 Appropriation Statement

The Ministry incurred expenditure totalling \$87.5 million in 2018 against a revised budget of \$99.3 million in accordance with Section 19 of the Financial Management Act 2004, resulting in savings of \$11.8 million or 12%.

The significant savings in Capital Construction expenses is mainly attributed to the delay in the tender process, vetting/finalization of contract documents and requisition to incur funds (RIE) applications therefore resulting in the delay in the implementation of capital projects that were planned and budgeted for to be carried out during the year. These include project funds allocated for under the Farm Access Road, Construction of Office & Staff Quarters, Export Promotion Programme, Fiji Agricultural Partnership Project and the Construction of Agronomy Building which was not implemented in the 2018 financial year.

The savings in Capital Purchase is attributed to the non-implementation of the Farm Mechanisation programme due to the significant delay in the tender process and getting the tender approval.

Details of expenditure against the revised budget are provided in Table 30.2.

Table 30.2: Appropriation Statement for 2018

SEG	Item	Budget Estimate (\$)	Changes (\$)	Revised Estimate (\$)	Actual Expenditure (\$)	Lapsed Appropriation (\$)
1	Established Staff	14,442,544	---	14,442,544	12,040,455	2,402,089
2	Government Wage Earners	5,297,593	---	5,297,593	4,951,495	346,098
3	Travel & Communication	730,400	57,314	787,714	780,664	7,050

SEG	Item	Budget Estimate (\$)	Changes (\$)	Revised Estimate (\$)	Actual Expenditure (\$)	Lapsed Appropriation (\$)
4	Maintenance & Operations	2,170,881	(10,859)	2,160,022	2,029,814	130,208
5	Purchase of Goods & Services	773,203	(46,455)	726,748	593,641	133,107
6	Operating Grants & Transfers	4,214,671	(500,000)	3,714,671	3,635,078	79,593
7	Special expenditure	4,764,000	(636,945)	4,127,055	3,743,734	383,321
	Total Operating Costs	32,393,292	(1,136,945)	31,256,347	27,774,881	3,481,466
8	Capital Construction	27,097,000	(8,131,843)	18,965,157	14,916,823	4,048,334
9	Capital Purchase	3,540,000	(1,249,693)	2,290,307	1,239,252	1,051,055
10	Capital Grants & Transfers	19,791,938	24,490,240	44,282,178	41,564,300	2,717,878
	Total Capital Expenditure	50,428,938	15,108,704	65,537,642	57,720,375	7,817,267
13	Value Added Tax	3,516,800	(971,759)	2,545,041	2,006,370	538,671
	TOTAL	86,339,030	13,000,000	99,339,030	87,501,626	11,837,404

The Ministry collected revenue totalling \$947,800 in 2018, an increase of 49% from the previous year. This is attributed to the increase in receipt of deposits from farmers for various land preparation projects.

30.4 Trading and Manufacturing Account

Table 30.3: Consolidated Trading Account – Commercial Undertaking

Description	31 July 2018 (\$)	31 July 2017 (Restated) (\$)
Sales	1,369,248	1,605,040
	1,369,248	1,605,040
Opening Stock	775,608	1,331,426
Add: Purchases	697,287	1,184,767
Add: Direct Labor	5,507	7,207
Goods Available for Sale	1,478,402	2,523,400
Less: Closing Stock	592,672	775,608
Cost of Goods Sold	885,730	1,747,792
Gross Profit/ (Loss)	483,518	(142,752)

Table 30.4: Consolidated Profit and Loss Account – Commercial Undertaking

Description	31 July 2018 (\$)	31 July 2017 (Restated) (\$)
Income		
Gross (Loss)/ Profit Transferred from Trading Account	483,518	(142,752)
Total Income	483,518	(142,752)
Expenses		
Travelling & Communication Expenses	3,147	14,895
Maintenance and Operation	345,470	220,435
Other Expenses	27,571	20,469
Loss of Inventory	1,147	4,507
Total Expenses	377,335	260,306
Net Profit/ (Loss)	106,183	(403,058)

Table 30.5: Consolidated Balance Sheet – Commercial Undertaking

Description	31 July 2018 (\$)	31 July 2017 (Restated) (\$)
Equity		
TMA Surplus		
Opening balance	(349,644)	(484,768)
Remittance	(156,794)	(359,372)
Adjustment	---	494,496
Closing Balance	(506,438)	(349,644)
TMA Accumulated Surplus		
Opening balance	1,504,897	1,903,448
Net Profit/ (Loss)	106,183	(403,058)
Write off	1,147	4,507
Closing Balance	1,612,227	1,504,897
Total Equity	1,105,789	1,155,253
Assets		
Cash at Bank	490,265	319,766
Accounts Receivable	739	739
Inventory	592,672	812,635
Total Assets	1,083,676	1,133,140
Liabilities		
Deposits & Retention	(22,113)	(22,113)
Total Liabilities	(22,113)	(22,113)
Net Assets	1,105,789	1,155,253

30.5 Main Trust Fund Account

Trust money is to be accounted for separately from public money and other money. Trust money is to be kept in a separate bank account pending its withdrawal for use.¹

30.5.1 Land Water Resource Management and Land Resettlement Planning and Development Trust Fund Account

This trust fund account is used to maintain retention funds for Land and Water Resources Management (LWRM) projects as per the conditions on the agreement. The funds will be paid out to contractors when certificate of completion is submitted and all conditions of the contract are met. This account was closed and transferred to Ministry of Waterways on 1 August 2018

Table 30.6: Trust Account Statement of Receipts and Payments - Land Water Resource Management and Land Resettlement Planning and Development

Description	31 July 2018 (\$)	31 July 2017 (\$)
Receipts		
Retention Money	1,326	870,709
Total Receipts	1,326	870,709
Payments		

¹ Financial Management Act 2004 – Section 25

Description	31 July 2018 (\$)	31 July 2017 (\$)
Retention Money	818,684	737,513
Total Payments	818,684	737,513
Net (Deficit)/ Surplus	(817,358)	133,196
Opening Balance as at 1 August	817,358	684,162
Closing Balance as at 31 July	---	817,358

PART B: ASSESSMENT OF FINANCIAL GOVERNANCE

30.6 Internal Controls

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.

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.

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.

- **Risk Assessment (RA)** – involves a dynamic process for identifying and analysing 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.

- **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 technological 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 entity. Specific control activities include those relating to authorization, performance reviews, information processing, physical controls, and segregation of duties.

- **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 reported to the management of the entities on matters relating to 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 entities to determine whether internal controls are present and functioning. This may include the establishment of independent internal audit functions within entities which would assist in identifying any gaps in controls.

A summary of assessment of key controls based on our audit was as follows:

Control Environment	Risk Assessment	Control Activities	Information & Communication Control	Monitoring Activities
✖	✖	✖	✖	✖

In view of the above, we have assessed the internal controls of the Ministry as:

Rating	Internal control assessment
✖ Ineffective	Significant deficiencies identified in internal controls

30.7 Submission of FY 2017-2018 Draft Agency Financial Statements


On 12 June 2018, Permanent Secretary for Economy issued Circular No. 03/2018 to Permanent Secretaries, Heads of Departments, High Commissioners and Ambassadors in Fiji Foreign Missions in which procedures for closing of 2018 accounts and times were detailed.

The key focus areas in the circular were:

- Closing date for journal adjustments by 10 August 2018
- Clearance of Inter-departmental clearance accounts by 3 August 2018
- Clearance of stale cheques by 22 August 2018
- Annual Board of Survey on Drawings Account cheques by 22 August 2018
- Retirement of imprests by 20 July 2018
- Cancellation of unprocessed purchase orders by 27 July 2018
- Processing of payments and virement by 31 July 2018
- Completion of reconciliations by 29 August 2018
- Submission of arrears of revenue returns by 31 August 2018

When Ministries and Departments achieve the key focus areas highlighted by the Permanent Secretary for Economy by the given dates, they are more likely to prepare accurate and timely draft financial statements for audit.


Based on information received, we have assessed the year-end close process as:

Rating	Year-end close process assessment
 Generally effective	Five of 9 key processes completed within two weeks of due date

30.8 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 impact these adjustments had on the operating results or net assets of the entity subject to our audit. Our assessment for the Ministry was:

Rating	Quality of draft financial statements assessment
 Ineffective	Adjustments on operating results/net assets were more than one percent

30.9 Timeliness of draft financial statements



To assess the timeliness of acceptable draft financial statements, we have compared the date the draft financial statements were due and the date it was received. Accordingly, we have assessed timeliness as:

Rating	Timeliness of draft financial statements assessment
 Ineffective	Acceptable draft financial statements received after 31 October 2018

30.10 Timeliness of Provision of Management Comments and Signing of Financial Statements

To assess the timeliness of provision of management comments and signing of financial statements, we have compared the date the draft management letter and audited financial statements were issued to entity and the date management comments and signed accounts were received.

Accordingly, we have assessed timeliness as:

Rating	Timeliness of Management Comments Received
 Ineffective	After 21 days from issue of Draft Management Letter
Rating	Timeliness of Signed Financial Statements Received
 Effective	Within 5 days from issue of Financial Statements for signing

PART C: 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 Ministry 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 Ministry. These have been included in this report as they impacted on the overall system of control of the Ministry as at 31 July 2018.

30.11 Anomalies in Procurement of Good and Services

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur.²

Our review of the procurement process of goods and services revealed the following anomalies:

Competitive Quotation

The audit review of the competitive quotations revealed the following:

- instances were noted where quotations were not obtained in a timely manner.
- instances were noted where procurements were made on invalid or expired quotations.
- fresh quotes were not obtained and previously received tax invoice were attached as quotation and in one instance, one of the quotations attached was the amended invoice of a different company and had the stamp of another company. The other company's name & contact details were crossed off, the title "invoice" was replaced with the title "quotation".
- instances were noted where pro-forma invoices were used as quotations and were received after the goods and invoices had been delivered. In one instance, the audit noted that two other quotations were obtained after the payment had already been made.
- quotations were not obtained for the hire of truck to cart TB infected cattle, nor were LPOs issued.

Local Purchase Order (LPO)

Our review of the LPOs revealed the following:

- LPOs were raised and issued before the procurement request forms were approved. In some instances, the procurement requests were only certified and approved after the invoice and goods had been received.

² Ministry of Agriculture Finance Manual 2017 – Part 2 Expenditure: Introductory Statement

- Instances were noted where the procurement request forms were not properly certified or approved by the authorizing officer. The officers based at the HQ were certifying the procurement request from the outer stations.
- in most instances, local purchase orders were not raised for the purchase of ginger seeds, hire of trucks for carting and land preparation facility programme, therefore the procurements were deemed unauthorized.

Invoices

Our review of the invoices noted several occasion where payments were made on the strength of photocopied invoices. These photocopied invoices were not certified by the Ministry as true copy of originals hence increases risk of fraudulent payments being made.

Root cause/Implication

This indicates serious failure of internal control and high risk of fraud and collusion is evident. Lack of oversight from officers responsible for approval payment is the major cause of such findings.

Recommendations

The Ministry should:

- **strengthen the internal control around procurement of goods and services;**
- **strengthen supervisory checks and due diligence in areas of procurement;**
- **consider rotating officers involved in procurement of good and services;**
- **conduct internal investigation into the procurement procedures; and**
- **conduct procurement fraud awareness among the officers responsible for procurement of good and services.**

Agreed Management Action

The Ministry will ensure that a payment SOP and Procurement Checklist is develop and distributed to Division and conduct regular Quarterly Inspection of Stations.

Officer Responsible

Accounts Team HQ/Principal Administrative Secretary/ Directors/Principal Administrative Secretary
Ethic/Principal Accountant

30.12 Payment Anomalies in Land Preparation Facility Projects

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur.³

³ Ministry of Agriculture Finance Manual 2017 – Part 2 Expenditure: Introductory Statement

A local purchase order shall be issued for the procurement of any goods, services or works made locally. If a contract or agreement has been entered into a purchase order shall be raised after the contract has been approved by PSA do not occur.⁴

Land preparation subsidy is targeted at farmers to increase production level. The Minister of Economy had approved the waiver of tender process for the Land Preparation Facility to 46 companies across the country at a total cost of \$1,067,739.58 to carry out the land clearing and preparation works.

Our review of the payments in relation to Land Preparation Facility noted the following:

- The amount of assistance to be provided to farmers depends on the type of farmer assisted that is subsistence, semi commercial and full commercial.

However despite the limits set as per the type of farmer, it was noted that the assistance provided to the farmers had exceeded their entitlements. Subsistence farmers were provided assistance that a semi/ full commercial farmer is entitled to.

- Instances were also noted where the Procurement Requests were approved and LPOs were issued after the certificate of completion had been received or work had been carried out therefore the contractor was engaged without proper authorization.
- The certificates of completion were not dated and there is a risk that the work was done prior to the LPOs being issued. In some instances, no LPOs was issued, therefore the work was carried out without any proper authority.

Root cause/Implication

These are attributed due to the absence of proper checks being carried out by supervisors and the responsible officers' non-adherence to the land preparation facility policy. The control weakness over the procurement process is evident and there is a high risk of fraudulent payments being made.

Recommendations

The Ministry should ensure that:

- **policy awareness is done and officers are reminded of the importance of complying with the policies in place and the consequences of non-compliance;**
- **supervisory checks to be strengthened and those processing the payments to be more vigilant in their duties;**
- **Appropriate action to be taken against Officers not complying with the policies and guidelines; and**
- **the impact and sustainability assessment of its assistance program is done to gauge its assistance program effectiveness, suitability, impact and sustainability.**

⁴ Ministry of Agriculture Finance Agriculture Manual 2017 – Section 2.5.1

Agreed Management Action

The Ministry will:

- ensure that the awareness on the Land Preparation Facility (LPF) Policy Guideline is carried out to the respective Geographical Divisions on Annual basis.
- strengthen the monitoring of the program by PAO's, SAO's, Locality Officers. Proper follow up will be carried out by the Monitoring and Evaluation team from Head Quarters.
- review the current LPF policy guideline to address the areas of concerns that are highlighted to avoid non-compliance.

Officer Responsible

Director Extension

30.13 Failed Land Preparation Facility Projects

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur.⁵

Our site visit to various land preparation facility projects noted the following:

- land that had already been cleared/ prepared were overgrown with grass and no crops were planted. The details are provided in Appendix 30.7.
- several farmers whose land preparation projects were approved have not been implemented due to the inability of those farmers to pay the 10% contribution. As a result, replacement farmers were identified to replace the approved farmers. However, proper approval was not obtained for the replacement farmers. Therefore farmers assisted were not properly authorized.
- the current land preparation facility policy is silent on the selection and approval process for replacement farmers.
- the Ministry did not carry out re-scoping works for replacement farmers. It was noted that the same quotation and LPO issued was used for the replacement farmers.

Root cause/Implication

The above finding indicates that proper procedures were not followed in selecting replacement farmers. In addition there is lack of monitoring by the locality officers as land prepared for farming were overgrown with grass.

Recommendations

The Ministry should ensure that:

- proper assessments are carried out and if possible an undertaking is signed by both parties to ensure that the funds utilized are put to good use.

⁵ Ministry of Agriculture Finance Manual 2017 – Part 2 Expenditure: Introductory Statement

- the impact and sustainability assessment of its assistance program is done to gauge its assistance program effectiveness, suitability, impact and sustainability.
- monitoring is strengthened to promptly gauge the progress of projects.
- all officers strictly comply with policies and procedures in place.

Agreed Management Action

The Ministry will:

- strengthen the monitoring of the program by PAO's, SAO's, Locality Officers. Proper follow up will be carried out by the Monitoring and Evaluation team from Head Quarters.
- review the current LPF policy guideline to address the areas of concerns that are highlighted to avoid non-compliance.

Officer Responsible

Director Extension

30.14 Anomalies in the TMA Stock Take Process

A stock take must be undertaken each year to verify the existence and condition of inventories on hand.⁶ The stocktake officers shall prepare their stocktake report noting any surplus, damaged, obsolete or unaccounted stock and their recommendations.⁷

We observed the annual stock take of the inventories held at the following stations:

1. Koronivia Research Station for the dairy cattle
2. Nacocolevu Research Station for cattle
3. Animal Health & Production Headquarters (Vatuwaqa) for veterinary drugs and CUT stock

The following observations were noted:

- The cattle counting process at the Nacocolevu Research Station was not properly organized as the counting was done in the open paddock and therefore the tags were not verified.
- The weights of the cattle were not taken and therefore the closing stock value could not be ascertained.
- Variances were noted between the balances in the stock card and the actual items held in stock. The inventory cards were not updated on a regular basis and the Ministry could not reconcile the variances noted during the stock take.

Root cause/Implication

This indicates that the Ministry did not properly prepare and organize the stock take exercise. The Ministry did not maintain proper inventory records therefore. Therefore, we could not place reliance on the inventory balances as per the stock certificates presented. There is a risk of closing inventory balance being over/understated.

⁶ Finance Instructions 2010 - Section 38

⁷ Ministry of Agriculture Finance Manual 2017 - Section 8.3.3

Recommendations

The Ministry should:

- ensure that all stock take logistics are properly organized before the exercise is undertaken.
- ensure that proper inventory records are maintained and stock cards are updated on a regular basis.
- consider conducting monthly stock take to detect any rectify any variances during the year.

Agreed Management Action

The Ministry will ensure that Quarterly Stock take is conducted. Quarterly Inspection of station to be conducted together with stock take.

Officer Responsible

Director Animal Health & Production/Principal Accountant

30.15 Absence of Vendor Approvals for Farm Care Programme

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community. As well, having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and corruption do not occur.⁸

A total of \$24.4million was disbursed to Vodafone Fiji Ltd under the Farm Care programme. Vodafone acted only as a medium of payment from the farmers to the vendors.

The Ministry of Agriculture had utilized \$11.4million from its various budgetary allocations to fund this programme and the Ministry of Economy had paid a sum of \$13 million from Head 50 to fund the Farm Care programme.

We were unable to verify if all vendors included in the Vodafone Fiji Ltd acquittal report were approved due to lack of supporting documents provided by the Ministry. A total of 19 vendor approvals were not provided, accumulating to \$2.3m of total funds utilized by farmers at different vendor outlets.

Root cause/Implication

This indicate poor and improper record keeping on the part of the Ministry. The absence of records created a significant limitation in performing audit tests to ensure that funds given were utilized for the purposes it was intended for and to the approved suppliers.

Recommendation

The Ministry should ensure that proper records and documents to support financial transactions are maintained.

⁸ Ministry of Agriculture Finance Manual 2017 – Part 2 Expenditure: Introductory Statement

Agreed Management Action

Audit comment is noted. Ministry cannot control procurement made by the farmers from various non-approved vendors. In future Vodafone to give us assurance that items given to farmers are within the list approved by MOA.

Officer Responsible

Deputy Secretary Agriculture Development/ Principal Accountant

30.16 Governance Issues

It is a good practice to establish a risk management framework to have the Ministry Management, and Internal Audit and respective Divisional Heads, to jointly plan, implement, monitor, and take action on evolving risks affecting the Ministry.

Risk management framework would provide a platform to identify various risks affecting the Ministry, management of the risks, develop appropriate internal control to mitigate the risks and continuous monitoring of risks. The mechanism to mitigate risks could include policies, procedures, training and awareness.

The Ministry have not finalised the following policies:

- operational and strategic plan
- risk management framework
- HR policy and
- OMRS policy.

These policies are currently in the draft stages since prior financial years.

Root cause/Implication

This is the result of the lack of commitment shown by the responsible officers at the Ministry to finalize the policies.

Recommendation

The Ministry should consider investing time and resources in formulating and implementing policies which will in turn provide a clear, consistent and strategic direction to the management in decision making.

Agreed Management Action

Operation & Strategic Plan draft with Minister on 25/1. Risk Management, HR Policy, and OMRS still formulating draft copy.

Officer Responsible

Principal Administrative Secretary/Chief Economist

30.17 Progress Report on Dairy Development Programme (FDCL) not provided

Where required under Finance Instruction 16-(8), the recipient shall prepare an acquittal report. The acquittal report shall provide the following information:

- i. details of grant money expended and unexpended;
- ii. grant objectives and targets achieved;
- iii. financial statement (audited if practicable) for grants of \$20,000 or more; and
- iv. A copy of the bank statement.⁹

A sum of \$733,911 was paid as Capital grant to the Fiji Dairy Cooperative Ltd during the financial year 2018. However, there was no progress report provided to ascertain the work being undertaken by the FDCL during the year.

Root cause/Implication

This is the result of the lack of monitoring on the part of the Ministry to ensure that the funds are being used for its intended purposes. As a result impact assessment of the capital grant provide to FDCL could not be performed.

Recommendations

The Ministry should ensure that the:

- **grant recipients provide physical progress reports and the activities carried out are monitored by the Ministry.**
- **impact and sustainability assessment of its assistance program is done to gauge its assistance program effectiveness, suitability, impact and sustainability.**

Agreed Management Action

Audit comment is noted a proper assessment will be done on all recipients.

Officer Responsible

Monitoring Unit/ Principal Accountant/PEPO Budget/PEPO Monitoring/Chief Economist

30.18 Unsubstantiated TMA VAT Charges

The Divisional Accounting Officers and clerks are responsible for maintaining ledgers and reconciling balances in such ledgers to ensure the accuracy of financial information and the timeliness of management reports.¹⁰

The Ministry of Agriculture TMA under Ministry of Economy Circular 11/2012 is a non-taxable activity hence is exempted from paying VAT. However, we noted that general ledger showed a VAT payable balance of \$22,113.13.

⁹ Ministry of Agriculture Finance Manual 2017 – Section 3.3.1

¹⁰ Ministry of Agriculture Finance Manual 2017 - Part 16: Ledger Accounts

Root cause/Implication

This figure has been carried forward from prior years without any action taken by the Ministry to rectify the balance. As a result, the VAT payable amount is incorrectly stated in TMA balance sheet.

Recommendation

The Ministry should investigate the above and take appropriate action to rectify the anomalies noted.


Agreed Management Action

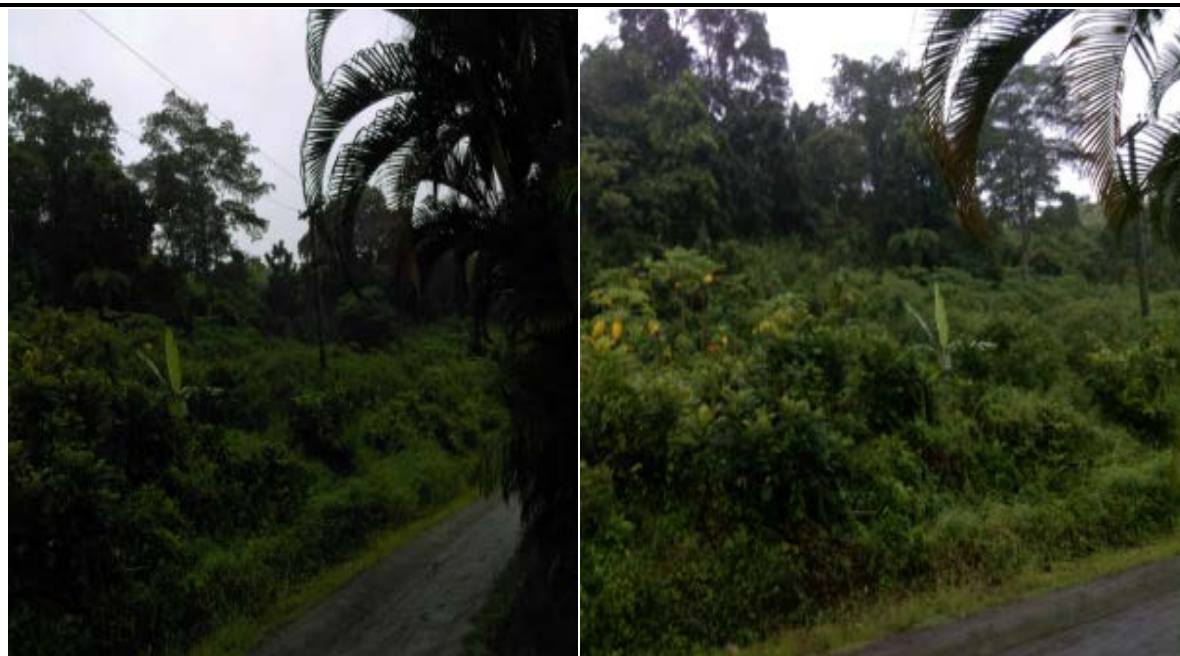
The audit comments are noted. The Ministry will ensure that the issue is addressed with Ministry of Economy and OAG in the 2019 financial year.

Officer Responsible

Principal Accountant

APPENDIX 30.7: FAILED LAND PREPARATION FACILITIES PROJECTS

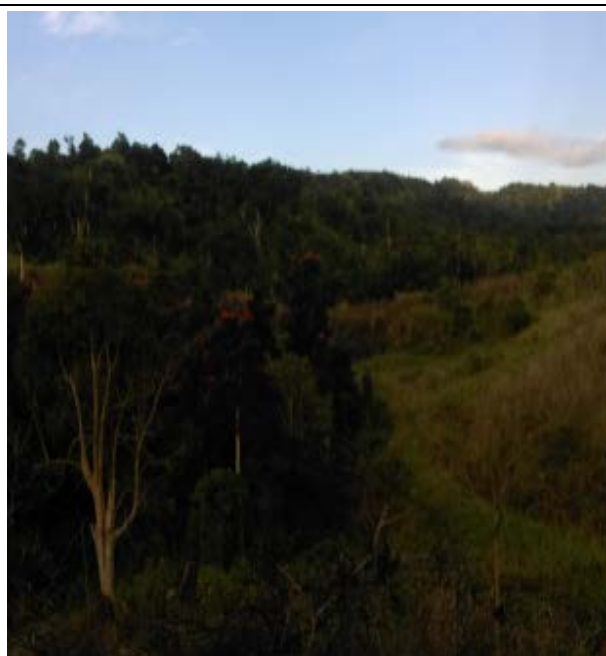
Division	Location	Government contribution (\$)	Farmer contribution (\$)	Receipt Number	Remarks
Central	Naduru, Bau, Tailevu	12,330.00	1,370.00	185184	Total of 33 acres land was cleared. Out of this, about 18 acres have not been ploughed and lined and the field is overgrown with grass. Refer to pictures below for detail.
					
Central	Dravuni	2,700.00	300.00	777013	Our site visit on 26/09/18 noted that the cleared land is now overgrown with grass and is filled with cassava and dalo suckers. Farmer had planted dalo and had already harvested once. The farmer is 85yrs old. Refer to pictures below for detail.



Central	Navatuya ba, Toga, Rewa	9,090.00	1,010.00	90073	<p>Noted that he was a replacement farmer as the initial farmer approved could not pay the 10% contribution.</p> <p>Payment was made to contractor. However, work was still pending as at 24/09/18.</p> <p>The replacement farmer did not agree with the contractor's scope of works (300 meters drainage). We noted that scoping of works was not done by the Ministry and the contractor did not physically site the land.</p>
Central	Valenicina	8,100.00	900.00	185179	<p>Land clearing work completed on mataqali land has been completed by the contractor however no crops have been planted on the land. Refer to pictures below for detail.</p>



Western	Nauto settlement	7,650.00	850.00	90116	Cleared land is overgrown with grass. Refer to pictures below for detail.
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APPENDIX 30.8: DETAILS OF VENDORS WHOSE APPROVALS WERE NOT PROVIDED

Vendor Names	Amount (\$)
Vendor A	1,593.25
Vendor B1	4,934.25
Vendor B2	1,703.54
Vendor B3	5,605.55
Vendor C1	2,190.95
Vendor C2	39,231.54
Vendor C3	1,985.05
Vendor C4	8,266.45
Vendor C5	55,489.13
Vendor C6	9,151.50
Vendor C7	5,290.85
Vendor C8	29,230.85
Vendor C9	5,542.80
Vendor C10	86,674.81
Vendor C11	9,373.85
Vendor D	59,649.43
Vendor E1	161,302.12
Vendor E2	330,829.07
Vendor F	118.00
Vendor G	26,396.73
Vendor H	703.00
Vendor I1	11,476.97
Vendor I2	2,434.50
Vendor I3	123.70
Vendor I4	3,034.70
Vendor I5	981.55
Vendor I6	1,909.40
Vendor I7	69.95
Vendor I8	2,066.96
Vendor I9	2,442.49
Vendor J	4,449.55
Vendor K	400.00
Vendor L1	51,746.63
Vendor L2	2,672.38
Vendor L3	931.98
Vendor L4	767.25
Vendor L5	17,974.51
Vendor M	74,801.62
Vendor N1	42,450.08
Vendor N2	8,050.20
Vendor N3	39,168.71
Vendor N4	4,347.10
Vendor N5	21,103.60
Vendor N6	2,856.35
Vendor N7	5,266.50
Vendor N8	1,085,729.48
Vendor N9	22,866.54
Vendor O	11,521.09
Vendor P1	6,023.00
Vendor P2	34,684.34
Vendor P3	1,080.50
Vendor P4	12,548.40
Vendor P5	9,906.39

Vendor Names	Amount (\$)
Vendor P6	1,725.59
Vendor Q	62,773.38
Vendor R	42.00
Vendor S	127.85
Vendor T	3,515.00
Total	2,399,332.96

Head 34**Ministry of Industry, Trade and Tourism****Role and Responsibilities**

Creating an internationally competitive economy and stimulating economic growth is one of the major priorities of the Fijian Government. To achieve this, Government has placed measures and strategies that encourage domestic and foreign direct investment, support private sector growth and boost intentional trade.

The Ministry of Industry, Trade and Tourism is responsible for transforming Fiji into a vibrant, diversified, internationally competitive, export-led growth oriented economy. This is done by creating a competitive environment that enhances the performance of both the manufacturing and services sectors, as well as, focusing on other growth areas in the other priority sectors.

Furthermore, policies and strategies are being developed through the Fijian Trade Policy Framework to ensure that Fiji is competitive in every aspect of operations: moving goods and people across borders, internal logistics, world class transportation and communication links and lowering the cost of doing business. The Ministry also develops broad-based export markets for Fijian made products and services.

Additionally, the Ministry is focusing on the development of the micro, small and medium enterprises sector as the backbone of the Fijian economy. As this sector has the ability to stimulate growth from within to create a robust and resilient economy.

The inclusion of the IHRDP (Integrated Human Resource Development Programme) and Northern Development Program in the Ministry's 2017 – 2018 Budget is in line with the Government's objective of streamlining services needed by SMEs around Fiji.

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PART A: FINANCIAL STATEMENTS**34.1 Audit Opinion**

The audit of the 2018 accounts of the Ministry of Industry, Trade and Tourism resulted in an unqualified opinion.

34.2 Statement of Receipts and Expenditure

The Ministry of Industry, Trade and Tourism collected state revenue totalling \$782,697 and incurred a total expenditure \$99,174,827 for the year ended 31 July 2018. Details are provided in Table 34.1.

Table 34.1: Statement of Receipts and Expenditure for 2018

Description	31 July 2018 (\$)	31 July 2017 (\$)
State Revenue	782,697	592,824
TOTAL REVENUE	782,697	592,824
Established Staff	3,203,286	2,991,913
Government Wage Earners	448,669	378,719
Travel and Communications	348,467	343,636
Maintenance & Operations	830,519	899,072
Purchase of Goods and Services	224,737	261,026
Operating Grants and Transfers	21,368,913	18,985,482
Special Expenditures	8,999,578	10,800,463
Total Operating Expenditure	35,424,169	34,660,311
Capital Construction	-	30,710
Capital Purchases	401,478	1,445,565
Capital Grants and Transfers	62,988,065	35,006,707
Total Capital Expenditure	63,389,543	36,482,982
Value Added Tax	361,115	428,822
TOTAL EXPENDITURE	99,174,827	71,572,115

State revenue mainly comprises of inspection and registration fees received from various industries for inspecting the weight and measuring equipment used for their operations. The increase in the revenue was mainly due to the refund of \$124,600 for non-delivery of a vehicle.

Operating grants and transfers increased by \$2,383,431 in 2018 compared to 2017 due to an increase in annual budgets for Consumer Council of Fiji, Investment Fiji, Film Fiji, Fijian Competition and Consumer Commission, Real Estate Agents Licensing Board, Tourism Fiji and grants to professional bodies.

Special expenditures decreased by \$1,800,885 in 2018 compared to 2017 due to the removal of Micro Small Business Grant budget item.

Capital purchase decreased by \$1,044,087 in 2018 compared to 2017 due to the reduction in Lab Equipment Purchase budget.

Capital Grants and Transfers expenditure increased by \$27,981,358 in 2018 compared to 2017 mainly due to the increase in annual budgets of \$4,259,642 for Micro and Small Business Grants and \$5,481,161 for Tourism Fiji - Marketing. There were also additional new activities during the year for which a total of \$481,776 was incurred for the Standardised Roadside Stalls; \$3,925,53 for Wairabetia Economic Zone; \$388,264 for Micro and Small Medium Enterprise Central Co-ordinating Agency, and \$28,097 for the Young Entrepreneurship Scheme.

34.3 Appropriation Statement

The Ministry incurred expenditure totalling \$99.1 million in 2018 against a revised budget of \$105.3 million resulting in savings of \$6.2 million or 5.9%. The savings was largely attributed to special expenditure.

The savings for special expenditures of \$2,120,120 was mainly attributed to the National Export Strategy-savings of \$406,339 due to less applications received, IHRDP- savings of \$415,246 due to delay in the implementation of some of the identified projects as there was unexpected lead time of material delivery, lack of required documents and approvals from other stakeholders, delay in community contributions. The UNWTO Joint Meeting had a savings of \$212,310 as the Ministry received sponsorship for the event.

Details of expenditure against the budget estimate are provided in Table 34.2 below.

Table 34.2: Appropriation Statement for 2018

SEG	Item	Budget Estimate (\$)	Changes (\$)	Revised Estimate (\$)	Actual Expenditure (\$)	Lapsed Appropriation (\$)
1	Established staff	3,970,459	(97,500)	3,872,959	3,203,286	669,673
2	Government Wage Earners	412,775	97,500	510,275	448,669	61,606
3	Travel & Communications	451,300	16,000	467,300	348,467	118,833
4	Maintenance & Operations	1,028,300	83,000	1,111,300	830,519	280,781
5	Purchase of Goods & Services	375,410	(16,700)	358,710	224,737	133,973
6	Operating Grants & Transfers	21,679,316	(141,822)	21,537,494	21,368,913	168,581
7	Special Expenditures	11,763,845	(644,147)	11,119,698	8,999,578	2,120,120
Total Operating Expenditure		39,681,405	(703,669)	38,977,736	35,424,169	3,553,567
8	Capital Construction	-	-	-	-	-
9	Capital Purchases	500,000	-	500,000	401,478	98,522
10	Capital Grants & Transfers	66,944,368	(2,296,331)	64,648,037	62,988,065	1,659,972
Total Capital Expenditure		67,444,368	(2,296,331)	65,148,037	63,389,543	1,758,494
13	Value Added Tax	1,257,000	-	1,257,000	361,115	895,885
TOTAL		108,382,773	(3,000,000)	105,382,773	99,174,827	6,207,946

The Ministry of Economy redeployed a sum of \$3 million from the Ministry to fund different CARE for Fiji's initiative for the financial year. A total of \$2 million was redeployed from Wairabetia Economic

Zone funds and \$1 million from Micro, Small and Medium Enterprise Central Co-ordinating Agency project funds to fund the Cyclone Assistance Relief Effort for Fiji during the financial year.

34.4 Main Trust Fund Account

Trust money is to be accounted for separately from public money and other money. Trust money is to be kept in a separate bank account pending its withdrawal for use. The Ministry operates and maintains two main trust fund bank accounts which includes the following;

34.4.1 Co-operative Trust Fund Account - Statement of Receipts and Payments

The Co-operative Trust Fund Account was established to administer the training services delivered to co-operative members. The receipts consist of fees charged to trainees and payment relates to the operation of the training institutes.

The Co-operative Trust Fund Account recorded a balance of \$94,587 for the financial year ending 31 July 2018. The Ministry recorded receipts totalling \$20,680 and expenses totalling \$19,470 resulting in surplus of \$1,210 for the financial year ending 31 July 2018.

Details of receipts against the payments are provided in Table 34.3.

Table 34.3: Co-operative Trust Fund Account - Statement of Receipts and Payments

Description	31 July 2018 (\$)	31 July 2017 (\$)
Receipts		
Co-operative Training Fees	16,494	25,770
Re-print Certificate	10	---
Interest Received from Bank	1,039	902
Sales of Stationery	3,137	758
Total Receipts	20,680	27,430
Payments		
Training fees	11,993	5,710
Bank Charges	153	184
Interest Paid to Ministry of Economy	887	719
Stationery	---	16
FRCS	1,437	1,980
Refund	---	---
Catering	5,000	---
Total Payments	19,470	8,609
Net Surplus	1,210	18,821
Opening Balance as at 1 August	93,377	74,556
Closing Balance as at 31 July	94,587	93,377

34.4.2 IHRDP Trust Fund Account - Statement of Receipts and Payments

The Ministry also maintains Integrated Human Resource Development Programme Trust Fund Account.

The Integrated Human Resource Development Programme was endorsed by Government in 2000 to establish income generating projects and to create decent employment. These small and medium

economic activities are intended to generate and revitalise the local rural economies and thus enhancing the livelihood of rural communities, settlements and villages.

The administration of the accounts was transferred from the Ministry of Economy (MOE) to Ministry of Industry, Trade and Tourism in 2017.

The Integrated Human Resource Development Programme Trust Fund Account recorded a balance of \$109,203 for the financial year ending 31 July 2018. There was nil receipts recorded in 2018 compared to \$61,927 in 2017 as the Ministry did not receive any community contribution for the financial year 2018. The Trust Fund recorded expenses totalling \$37,484 compared to \$39 in 2017. Details of receipts and payments are provided in Table 34.4.

Table 34.4: IHRDP Trust Fund Account - Statement of Receipts and Payments

Description	31 July 2018 (\$)	31 July 2017 (\$)
Receipts		
Community Contribution	---	61,927
Total Receipts	---	61,927
PAYMENTS		
Adjustment of Bank Chargers	70	39
Tractor- Koronvia Farmers Co-operative	22,000	---
Cash Register/Baker Flour- Gusuisavu Bakery	2,610	---
Materials- Cautata Bakery	12,804	---
Total Payments	37,484	39
Net Surplus	(37,484)	61,888
Opening Balance as at 1 August	146,687	84,799
Closing Balance as at 31 July	109,203	146,687

PART B: ASSESSMENT OF FINANCIAL GOVERNANCE

34.5 Internal Controls

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.

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.

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.

- **Risk Assessment (RA)** – involves a dynamic process for identifying and analysing 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.

- **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 technological 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 entity. Specific control activities include those relating to authorization, performance reviews, information processing, physical controls, and segregation of duties.

- **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 reported to the management of the entities on matters relating to 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 entities 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.

A summary of assessment of key controls based on our audit was as follows:

Control Environment	Risk Assessment	Control Activities	Information & Communication Control	Monitoring Activities
✱	✱	✱	✱	✱

In view of the above, we have assessed the internal controls of the Ministry as:

Ratings	Internal control assessment
✱ Effective	No deficiencies identified in internal controls

34.6 Submission of FY 2017-2018 Draft Agency Financial Statements

On 12 June 2018, Permanent Secretary for Economy issued Circular No. 03/2018 to Permanent Secretaries, Heads of Departments, High Commissioners and Ambassadors in Fiji Overseas Missions in which procedures for closing of 2018 accounts and times were detailed. The final day for closing the 2018 accounts was 31 October 2018.

The key focus areas in the circular were:

- Closing date for journal adjustments by 10 August 2018
- Clearance of Inter-departmental clearance accounts by 3 August 2018
- Monitoring of un-presented cheques by 31 July 2018
- Clearance of stale cheques by 22 August 2018
- Annual Board of Survey on Drawings Account cheques by 22 August 2018
- Retirement of imprests by 20 July 2018
- Cancellation of unprocessed purchase orders by 27 July 2018
- Processing of payments and virements by 20 July 2018
- Completion of reconciliations by 29 August 2018
- Submission of arrears of revenue returns by 31 August 2018

When ministries and departments achieve the key focus areas highlighted by the Permanent Secretary for Economy by the given dates, they are more likely to prepare accurate and timely draft financial statements for audit.

Based on information received, we have assessed the year-end close process as:

Ratings	Internal control assessment
● Effective	All 9 key processes completed by due date

34.7 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 impact these adjustments had on the operating results or net assets of the entity subject to our audit. Our assessment for the Ministry was:

Ratings	Internal control assessment
● Generally Effective	Adjustments on operating results were less than one percent

34.8 Timeliness of Draft Financial Statements

To assess the timeliness of acceptable draft financial statements, we have compared the date the draft financial statements were due and the date it was received. Accordingly, we have assessed timeliness as:

Ratings	Internal control assessment
● Generally Effective	Acceptable draft financial statements received on or before 31 October 2018

34.9 Timeliness of Management Comments and signed Financial Statements

To assess the timeliness of provision of management comments and signing of financial statements, we have compared the date the draft management letter and audited financial statements were issued to entity and the date management comments and signed accounts were received. Accordingly, we have assessed timeliness as:

Rating	Timeliness of Management Comments Received
● Effective	Management response received within 14 days

Rating	Timeliness of Signed Financial Statements Received
● Effective	Signed accounts was received within 5 days

Head 35**Ministry of Sugar Industry****Roles and Responsibilities**

The Ministry of Sugar Industry is responsible for the coordination of the activities and functions of the various institutions that make up the sugar industry with the sole objective of ensuring that Government's commitment to reviving the industry is achieved. On-going partnership with the relevant industry stakeholders will enable more land available for productive and social purposes which encourages cane cultivation, adequate labour and committed sugar workforce.

The establishment of a dedicated Ministry of Sugar provides the enabling environment for direct efficient delivery of services to the stakeholders and cane districts and sectors throughout Fiji. The adoption of the 'professional' service delivery by the Ministry will promote maximum cane and sugar production annually through increased investments in cane and mill efficiency operation which lead to higher prices in sugar exports to existing and potential global markets.

With clear guidelines in place to achieve specific targets, the Ministry is committed to adopting a 'professional' service status that promotes:

- (a) Investment in cane management systems thus ensuring increased cane production.
- (b) Investments in mill technology thus contributing to improved mill efficiency and sugar extraction.
- (c) Exploring opportunities to value adding of milling by products as a source of additional revenue for the industry.

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PART A: FINANCIAL STATEMENT**35.1 Audit Opinion**

The audit of the 2018 accounts of the Ministry of Sugar Industry resulted in an unqualified audit opinion.

35.2 Statement of Receipts and Expenditure

The Ministry of Sugar Industry collected revenue totalling \$4,103 and incurred a total expenditure of \$80,678,086 for the year ended 31 July 2018. Refer Table 35.1 for details.

Table 35.1: Statement of Receipts and Expenditure for 2018

Description	31 July 2018 (\$)	31 July 2017 (\$)
RECEIPTS		
Agency Revenue	4,103	16,123
TOTAL RECEIPTS	4,103	16,123
EXPENDITURE		
Operating Expenditure		
Established Staff	443,729	344,614
Government Wage Earners	49,375	57,838
Travel & Communications	142,558	116,745
Maintenance & Operations	90,512	107,499
Purchase of Goods & Services	92,339	33,880
Operating Grants & Transfers	2,012,963	2,014,947
Special Expenditures	338,845	146,625
Total Operating Expenditure	3,170,321	2,822,148
Capital Expenditure		
Capital Construction	---	269,419
Capital Grants & Transfers	77,483,649	24,131,525
Total Capital Expenditure	77,483,649	24,400,944
Value Added Tax	24,116	67,362
TOTAL EXPENDITURE	80,678,086	27,290,454

The total expenditure increased by 196% or \$53,387,632 in 2018 compared to 2017 due to the significant increase in capital grants and transfers expenditure. The increase in capital grants and transfer resulted from the increases in program activities and grant paid to:

- Fiji Sugar Corporation for cane cartage program, sugarcane development and farmer's assistance program, special payment, cane access roads, and 2017 cane payment top;
- Fiji Development Bank for the sugarcane farm mechanisation;
- Sugarcane Growers Council for sugarcane rehabilitation small grants scheme;
- South Pacific Fertilisers Limited for fertiliser and weedicide subsidy;
- Sugarcane growers fund to assist new farmers; and
- Secretariat of the Pacific Community for farm advisory and Rural Access Roads and Associated Infrastructure (RARAI)¹ project.

¹ The Rural Access Roads and Associated Infrastructure (RARAI) project relates to the upgrade of all sugarcane access roads in the Malolo, Drasa and Koronubu areas around the Western Division. Apart from the government grant, the project was funded by the European Union and implemented by SPC.

The total revenue decreased by 75% or \$12,020 in 2018 compared to 2017 due to reduction in board member fees received during the 2018 financial year.

35.3 Appropriation Statement

The Ministry of Sugar incurred expenditure totalling \$80,678,086 in 2018 against a revised budget of \$80,930,399 resulting in savings of \$252,313 or 0.3%.

Details of expenditures against the budget estimates are provided in Table 35.2.

Table 35.2: Appropriation Statement for 2018

SEG	Item	Budget Estimate (\$)	Changes (\$)	Revised Estimate (\$)	Actual Expenditure (\$)	Lapsed Appropriation (\$)
1	Established Staff	546,246	(90,000)	456,246	443,729	12,517
2	Government Wage Earners	73,259	---	73,259	49,375	23,884
3	Travel & Communications	180,000	(10,000)	170,000	142,558	27,442
4	Maintenance & Operations	133,000	(14,220)	118,780	90,512	28,268
5	Purchase of Goods & Services	32,380	72,328	104,708	92,339	12,369
6	Operating Grants & Transfers	2,014,947	---	2,014,947	2,012,963	1,984
7	Special Expenditures	749,861	(342,356)	407,505	338,845	68,660
	Total Operating Costs	3,729,693	(384,248)	3,345,445	3,170,321	175,124
	Capital Expenditure					
8	Capital Construction	---	---	---	---	---
9	Capital Purchases	---	---	---	---	---
10	Capital Grants & Transfers	56,192,733	21,293,621	77,486,354	77,483,649	2,705
	Total Capital Expenditure	56,192,733	21,293,621	77,486,354	77,483,649	2,705
13	Value Added Tax	98,600	---	98,600	24,116	74,484
	TOTAL EXPENDITURE	60,021,026	20,909,373	80,930,399	80,678,086	252,313

PART B: ASSESSMENT OF FINANCIAL GOVERNANCE**35.4 Internal Controls**

During our audits, we assessed 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.

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.

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.

- **Risk Assessment (RA)** – involves a dynamic process for identifying and analysing 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.

- **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 technological 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 entity. Specific control activities include those relating to authorization, performance reviews, information processing, physical controls, and segregation of duties.






- **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 reported the management of the entities on matters relating to 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 entities 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.

A summary of assessment of key controls based on our audit was as follows:

Control Environment	Risk Assessment	Control Activities	Information & Communication Control	Monitoring Activities
				

In view of the above, we have assessed the internal controls of the Ministry as:

Rating	Internal control assessment
 Generally effective	Deficiencies identified in internal controls

35.5 Submission of FY 2017-2018 Draft Agency Financial Statements


On 12 June 2018, Permanent Secretary for Economy issued Circular No. 03/2018 to Permanent Secretaries, Heads of Departments, High Commissioners and Ambassadors in Fiji Foreign Missions in which procedures for closing of 2018 accounts and times were detailed.

The key focus areas in the circular were:

- Closing date for journal adjustments by 10 August 2018
- Clearance of Inter-departmental clearance accounts by 3 August 2018
- Clearance of stale cheques by 22 August 2018
- Annual Board of Survey on Drawings Account cheques by 22 August 2018
- Retirement of imprests by 20 July 2018
- Cancellation of unprocessed purchase orders by 27 July 2018
- Processing of payments and virements by 20 July 2018
- Completion of reconciliations by 29 August 2018
- Submission of arrears of revenue returns by 31 August 2018

When ministries and departments achieve the key focus areas highlighted by the Permanent Secretary for Economy by the given dates, they are more likely to prepare accurate and timely draft financial statements for audit.


Based on information received, we have assessed the year-end close process as:

Rating	Year-end close process assessment
 Effective	All 9 key processes completed by due date

35.6 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 impact these adjustments had on the operating results or net assets of the entity subject to our audit. Our assessment for the Ministry was:

Rating	Quality of draft financial statements assessment
 Effective	No adjustments were required


35.7 Timeliness of draft financial statements


To assess the timeliness of acceptable draft financial statements, we have compared the date the draft financial statements were due and the date it was received. Accordingly, we have assessed timeliness as:

Rating	Timeliness of draft financial statements assessment
 Generally Effective	Acceptable draft financial statements received on or before 31 October 2018

35.8 Timeliness of Management Comments and signed Financial Statements

To assess the timeliness of provision of management comments and signing of financial statements, we have compared the date the draft management letter and audited financial statements were issued to entity and the date management comments and signed accounts were received. Accordingly, we have assessed timeliness as:

Rating	Timeliness of Management Comments Received
 Ineffective	Management response received after 14 days

Rating	Timeliness of Signed Financial Statements Received
 Ineffective	Signed accounts was received after 15 days from issue of Financial Statements for signing

PART C: 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 Ministry 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 Ministry. These have been included in this report as they impacted on the overall system of control of the Ministry as at 31 July 2018.

35.9 Ineffective Grants Monitoring

The Ministry of Sugar Industry is responsible for the coordination of the activities and functions of the various institutions that make up the sugar industry with the sole objective of ensuring that Government's commitment to reviving the industry is achieved.

The Ministry paid out a total of \$77 million in grants in 2017/2018 financial year to different institutions for the benefit of farmers.

We noted that the Ministry was not effectively monitoring the grants in terms of carrying out field visits on farmers to ensure that grant assistance that should have been provided by the institutions to farmers have been received by farmers.

Out of the 16,000 registered sugarcane growers, only 82 were visited by the Ministry during their field visits.

Root Cause / Implications

The anomalies resulted mainly from the insufficient number of staff available to undertake the grant monitoring activities.

Recommendation

The Ministry should ensure that resourcing for monitoring of grants are increased and provide added assurance to Government that funds have been effectively utilized.

Agreed Management Action

Ministry has requested Ministry of Economy in the budget proposal for 2019-2020 to be able to recruit Project Officers who will assist in monitoring of capital grants.

Officer Responsible

Director Sugar

35.10 Assessment of standard of Cane Access Roads

Funds allocated for cane access roads during the financial year was \$6million.

Cane access roads are overseen and managed at three different levels:

1. Road Committee which includes growers, gangs and other road users
2. Sector Committee which includes the FSC and the SCGC representatives
3. National Steering CAR which includes the FSC, SCGC and MOSI representatives

The standard of the cane access roads were determined by the Road Committee.

While the effort of the Ministry is noted, we were not able ascertain the skills/experience of the Roads Committee on determination of standards for cane access roads.

Root Cause / Implications

The Road Committee team dynamics may not have the capacity to assess the cane access roads.

Recommendation

The Ministry should re-evaluate the expertise that is available with the different Committees to assist in the assessment of cane access roads.

Agreed Management Action

Cane Access Roads grant is used to do temporary repairs to cane access roads. There is insufficient funding to construct permanent roads or hire expertise to determine road worthiness for the transport of cane. Road committees based on past experiences determine that the quality of road is worthy enough to last for the crushing season.

Officer Responsible

Director Sugar

35.11 Anomalies in Cane Harvesting Program

The Lautoka, Rarawai and Labasa sugar mills were experiencing a shortage of cane supply due to the shortage of cane cutters during the crushing season. The Ministry with the assistance of the Fiji Corrections Services engaged the services of the prisoners during the crushing season².

We noted the following anomalies in the Cane Harvesting Program:

- There was no written agreement between the Ministry and the Fiji Corrections Services for the program; and
- The Ministry did not have clear guidelines over ownership and storage of camping equipment/working tools used for harvesting cane by prisoners post cane-harvesting season.

² Memo issued to the PS Ministry of Sugar from Director Sugar Operations dated 06 July 2018 to endorse the funding

Root Cause / Implications

In the absence of a written agreement, the Ministry may find it difficult to enforce any contractual obligation with Fiji Correction Services relating to proper management and accountability of working tools for cane harvesting.

Recommendation

The Ministry should ensure that a written agreement for the Cane Harvesting Program is in place between the Ministry and Fiji Corrections Services. The agreement should contractual obligations over ownership and proper storage of camping equipment/working tools used for harvesting cane.

Agreed Management Action

The Ministry has developed an agreement which has been sent to the Solicitor General's Office for vetting. This agreement after vetting will be signed between Ministry of Sugar and the Fiji Corrections Service which will show the terms of the arrangement.

Officer Responsible

Director Sugar Industry

35.12 Absence of Risk Management Policy

Risk management framework provide a structured platform to identify potential threats/risks affecting the Ministry and to define the strategy for minimizing or eliminating the impact of these risks as well as the mechanism to effectively monitor and evaluate this strategy.

We noted that the Ministry have yet to develop a risk management framework. As a result, the Ministry does not have written policies, procedures and guidelines to manage the risks associated with the following:

- Fraud control and anti-corruption;
- Disaster recovery and business continuity; and
- Potential conflict of interest

Root Cause / Implications

In the absence of risk management policy, the Ministry may find difficulty in managing risks affecting the Ministry particularly risk of fraud and misappropriation of assets.

The above also indicate that currently the Ministry does not have an established governance and accountability function to drive the risks management framework.

Recommendations

The Ministry should work towards establishing a governance and accountability function that supports the operations of the Ministry by providing financial and operational risk management of external reporting obligations.

Following the establishment of the governance and accountability function, a risk management framework should be developed and continuously used.

Agreed Management Action

A Risk Management Policy has been drafted and is under review with the Policy Division of Sugar. The Ministry will send this over to the Policy Division in Ministry of Economy before 28th February 2019. Once this has been vetted and approval given, the policy will be rolled out in Ministry of Sugar Industry.

Officer Responsible

Director Research/Policy



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