EXCELLENCE IN PUBLIC SECTOR AUDITING

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audits of Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities and Majority Owned Entities – December 2012

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8th April 2013

Commodore Josaia V. Bainimarama
Prime Minister and Minister for Finance
Office of the Prime Minister
Government Buildings
SUVA

Dear Sir

REPORT OF THE AUDITOR GENERAL

Audit of Government Commercial Companies, Commercial Statutory & Off Budget State Entities December 2012

In accordance with section 7(7) of the State Services Decree 2009, I am pleased to transmit to you my report on the audits of accounts of the above mentioned entities that were completed during the 2nd half of 2012.

The report should be presented to Cabinet within 30 days of receipt as required under section 7 (8) of the State Services Decree 2009.

Tevita Bolanavanua
Auditor - General

AUDITOR--GENERAL
FIJI

Government Commercial Companies, Commercial Statutory Authority & Off Budget State Entities

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1. Housing Authority
2. Rewa Rice Limited
3. Pacific Fishing Company Limited
4. Fiji Broadcasting Corporation Limited
5. Fiji Meat Industry Board
6. Public Rental Board

SECTION 01: HOUSING AUTHORITY OF FIJI

The Housing Authority was established by an Act of Parliament in 1955. The Authority became an operating entity in 1958. It began operations with the development of rental flats and progressed into the development of lots and the designing and building of homes.

The rental function of the Authority was separated from its core operations in 1989 and the Public Rental Board was created.

In 1996, the Authority was declared a Commercial Statutory Authority and is now required to provide returns to Government. The Authority moved away from the designing and building of homes to concentrate on the production of land lots and the provision of financing in 1997.

With the initial vision to provide affordable housing for low income earners in urban centres who would otherwise be unable to secure a permanent residence for themselves, the Authority has in recent years expanded its services to include mortgage financing for middle to high income earners.

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion

The audit of the financial statements of the Housing Authority of Fiji for the year ended 31 December 2011 resulted in issue of an unqualified audit report.

1.2 Abridged Statement of Financial Performance

Year Ended 31 December	2011 ($)	2010 ($)
Income		
Interest Income	9,936	11,951
Interest Expense	(6,588)	(6,633)
Net Interest Income	**3,348**	**5,318**
Other Operating Income	6,478	6,301
Total Revenue	**9,826**	**11,619**
Recurrent Expenditure		
Staff Costs	4,546	4,602
Bad & Doubtful Debts	239	1,008
Depreciation and Amortisation	947	874
Cost of Sales	718	588
Other Operating Expenses	2,987	3,593
Total Expenditure	**9,437**	**10,665**
Net Profit for the Year After Tax	**389**	**954**
Other Comprehensive Income	1,380	-
Total Comprehensive Income for the year after Tax	**1,769**	**954**

The Authority recorded an operating surplus of $389,000 in 2011 compared to $954,000 in 2010. The Authority's operating profit decrease by $565,000 or 59% compared to 2010. This was caused largely due to significant decrease in interest income by $2,015,000 or 16%. There was also an increase in cost of sales by $130,000 or 22% in 2011.

1.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Assets		
Cash & Cash Equivalents	18, 646	7,149
Loans and Advances	109,694	115,316
Inventories	20,059	12,306
Land held for future development	6,623	6,623
Property, Plant & Equipment	9,673	8,169
Other Assets	9,139	11,610
Total Assets	**173,834**	**161,173**
Liabilities		
Borrowings	98,059	96,059
Trade and other Payables	16,334	6,908
Provisions	1,124	1,658
Total Liabilities	**115,517**	**104,625**
Net Assets	**58,317**	**56,548**
Accumulated Funds		
Capital	41,772	41,772
Government Grant	15,958	15,958
Asset Revaluation Reserve	8,214	6,834
Accumulated Losses	(7,627))	(8,016)
Total Accumulated Funds	**58,317**	**56,548**

The Authority's net asset increased by $1,769,000 or 3% in 2011 compared to 2010 as a result of increase in cash and cash equivalents by $11,497,000 (160%) and inventories by $7,753,000 (63%).

PART B – CONTROL ISSUES

1.4 Navision Only Accounts

Nearly all of the Authority's customer accounts are maintained on Lendsphere. These accounts are then imported to the Navision accounting system on a regular basis.

The audit noted that there were some customer accounts maintained only in Navision and not in Lendsphere.

As at 31 December 2011, the net receivable amount of 'Navision only accounts' was $305,748. This was made up of gross receivables of $835,855 and customer accounts in credit of $530,107.

Some of these were duplicate accounts, overpaid accounts and approved but not disbursed accounts. It was noted that the Authority has created a provision for impairment of net receivable amount of $152,874 (50% of net receivable of $305,748).

As the amounts were to be fully reconciled, a significant portion, if not all of the amount may be impaired (not recoverable). The Authority should assess recoverability and refund the accounts on a gross basis instead of a net basis approach.

The use of 'Navision only' accounts increases the risk of errors in reconciling the subsidiary ledger (Lendsphere ledger) to the control account (Navision ledger). Furthermore, the reporting of net receivable and assessment of recoverability on a net basis increases the risk of amounts being overstated.

Recommendations

- **The Authority should ensure that the two ledgers are properly reconciled.**
- **The 'Navision only accounts' should be thoroughly reviewed and reconciled.**
- **All customer accounts to be maintained in Lendsphere only with the Navision accounting system used as a control account.**

Management Comments

No comments received.

1.5 Reconciliation of Revenue Declared in VAT Returns

As an audit procedure, a comparison was made between the revenue declared in the Authority's Value Added Tax ('VAT') returns and the Authority's reconciliation of revenue subject to VAT.

The audit noted that amounts excluded from the reconciliation by the Authority as revenue not subject to VAT were not properly supported with transactions. No supporting documents were provided for the revenue amounting to $264,961 not declared in the VAT return for the year.

In addition variances were noted between the total revenue and the revenue recorded in the general ledger for certain months.

The lack of proper supporting documents and reconciliation increase the risk of incorrect VAT returns lodged to the Fiji Revenue & Customs Authority (FRCA).

Recommendations

- **The Authority must ensure that revenue recorded for the month reconciles with the revenue declared in the monthly VAT returns.**
- **Exempt and zero rated income should be clearly indicated so it can be easily traced.**

Management Comments

No comments received.

1.6 H.O.P Government Grant Not Included in VAT Return

The Authority received HOP Grant from Government during the year of $2 million (inclusive of VAT).

In the month following the receipt of this grant, the Authority should have declared this in its VAT return and pay the correct amount of VAT to FRCA.

The audit noted that the Authority did not declare VAT on grant in its VAT return, thus did not pay the correct amount of VAT to FRCA.

Non declaration and payment of VAT to FRCA on revenue subject to VAT will result in penalties imposed by the Authority.

Recommendation

The Authority should ensure that it declares all VAT amount on grant and pay the same to FRCA.

Management Comments

No comments received.

1.7 Provision for Doubtful Debts

The Authority has made provisions for doubtful debts in accordance with its policies which are in line with guidelines provided in the Reserve Bank of Fiji (RBF) Banking Supervision Policy Statement No.3.

The Authority made specific and collective provision for doubtful debts taking into account the risk of non-recovery of each category of accounts. The provision is calculated based on the shortfall between the security value for an account in arrears and the loan balance after deducting any suspended interest. The age of arrears determine the level of provisioning against the shortfall in security value and the carrying amount after adjusting for suspended interest.
While the method is in accordance with RBF guidelines, the method is inconsistent with International Financial Reporting Standards (IFRS) which is the framework the financial statements is prepared under.

Under IFRS, *International Accounting Standard 39 (IAS 39), Financial Instruments: Recognition and Measurement, paragraph 63*, the amount of impairment loss is calculated as the difference between the carrying amount of financial assets and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial assets' original effective interest rate.

In its current calculation, the Authority had understated its receivables as it is netting off the impact of any suspended interest before calculating the provision for doubtful debts. Furthermore, the Authority uses the security value to assess impairment instead of considering future cash flows.

The current practice of the Authority in calculating provision for doubtful debts is not in compliance with IFRS.

Recommendation

The Authority should review its accounting policy to ensure compliance with IFRS.

Management Comments

No comments received.

1.8 Suspension of Interest Income on Accounts in Arrears

The Authority's current practice is to suspend interest and other charges accrued on impaired loan accounts which become arrears over 90 days. This means that interest and other charges on impaired assets are recorded as a liability until the customer makes subsequent repayments and the arrears age is reduced to less than 90 days, when the account is restructured or when the security for the account is realized.

The Authority's current treatment of interest and other charges on impaired assets is not in accordance with IAS 39. IAS 39 requires interest income to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. In accordance with IAS 39, interest and fees suspended should be recorded in the income statement.

Any probability of non-recovery of interest income and other charges are to be assessed separately in the determination of the provision for doubtful debts in the accounts.

The current practice of the Authority in suspending the recognition of interest income and other charges on accounts in arrears is not in compliance with IFRS.

Recommendation

The Authority should review its accounting policy to ensure compliance with IFRS.

Management Comments

No comments received.

1.9 Bank Reconciliations

The audit noted numerous anomalies with the various bank reconciliations prepared by the Authority. Some of these were as follows:

- Unpresented cheques for the Westpac 49018300 Main Operating Account could not be traced to subsequent month's bank statements or to the following month's bank reconciliation's unpresented cheques listing. Cheques totalling $28,122 in December 2011 and $116,376 in November 2011 that appeared in one month but could not be traced to the subsequent month's reconciliation or presented in the bank;

- A variance of $450 and $730 existed between the lodgement not credited balances in the November and December 2011 Westpac 49018300 main operating account bank reconciliations respectively and the balance deposited in the subsequent month;

- A number of direct credits, cancelled receipts and short banking in the Westpac main operating account were not posted in the general ledger as at 31 December 2011. Numerous transactions make up these reconciling items. The items were not posted to the general ledger subsequent to the year end to correct the bank reconciliation;

- A variance of $17,000 was noted between the November 2011 Westpac 49018300 main operating account and the General Ledger balance at the same date; and

- In the ANZ 5637386 account, the audit noted that the Authority failed to rectify an error made by the bank earlier on. Instead of debiting a customer's account and crediting the Authority's account, the bank incorrectly prepared bank cheques with the customer's name and the cash withdrawn from the Authority's bank account, and was sent to the Authority. The Authority consequently debited the customer's account using the cheques. This was not identified until January 2009 and was included as part of reconciling items until now.

Bank reconciliations contain many reconciling items that were not supported. The number of errors noted in the bank reconciliations indicates a lack of adequate reviews by senior officers. Most of the variances were attributed to 'system issues'.

With the volume of transactions and ongoing system issues, the lack of thorough review and reconciliation process increases the risk of fraud and error.

Recommendations

- **Monthly bank reconciliations should be reviewed and approved by senior personnel.**
- **All reconciling items must be cleared in a timely manner.**
- **Management should review variances arising from deposits and cash takings and the clearance of cheques from the bank reconciliation process.**

Management Comments

No comments received.

1.10 Cut-Off Issues with Navision and Lendsphere Systems

The audit noted problems in accounting cut-off periods with the Navision and Lendsphere systems.

Some loans and advances were approved before the balance date but were disbursed after balance date. The Navision and Lendsphere systems, however, backdated the disbursements to the date the loans and advances were approved. As a result, the systems recorded a debtor at balance date which technically did not exist at that date.

The financial impact on the overall net asset position reported in the Authority's accounts was nil while loans and advances was overstated and the cash balance was understated.

The problem would result in incorrect financial reporting if not resolved.

Recommendation

The Authority should immediately address the issue to ensure correct amounts are stated in the accounts.

Management Comments

No comments received.

1.11 Allowance for Write Down of Inventory - Unsold Houses

The Authority made an allowance of $21,000 to write down the recognised amount of Unsold Houses (inventory). These are mostly repossessed properties which are yet to be resold.

The audit noted that a lot of the properties were still in the foreclosure process. In some instances, the foreclosure has not been completed for a number of years, and in certain cases, the process has been ongoing for 10 years now. The houses have been deteriorating over the years, thus the valuation recorded in the Authority's records may be overstated.

Initial review of the property portfolio noted that a significant estimated write-down is required. The Authority then provided valuations by the valuers and a listing of offers to purchase or offers made to sell the properties. Taking this into account, it is estimated that the Authority's allowance for write down is understated by at least $50,000.

Inadequate provision for write-down results in incorrect financial reporting.

The slow process in foreclosing or settling an account increases the risk of deterioration in properties repossessed thus the values may be overstated.

Recommendations

- **The Authority should review the allowances made and ensure provisions for write-down made is adequate to record the carrying amount of the asset at its cost or net realisable value, whichever is lower.**
- **The Authority should review its procedures for foreclosure and settlement with a view of completing this process much earlier and reduce the risk of financial loss to the Authority.**

Management Comments

No comments received.

1.12 Inventory Listing

Inventory listing of developed lots and land banks are maintained on Microsoft Excel spreadsheets. The audit noted a few errors in the inventory listing as detailed below.

- Two lots sold in the Waila 3B subdivision were still shown as available for sale at 31 December 2011; and
- The valuation exercise performed during the year by the Authority's valuers noted that a few lots recorded as inventory had in fact already been sold. The sale was not properly accounted for resulting

in a net adjustment of $58,500 to the Asset Revaluation Reserve account to correct the disposal of previously revalued properties.

Lack of complete listing or a proper inventory management system increases the risk of incorrect financial reporting.

Recommendation

The Authority should explore ways to improve its system of accounting for the number and description of inventories.

Management Comments

No comments received.

1.13 General Ledger Reconciliations

The audit noted that the reconciliation for outstanding city and town rates differed from that recorded in its accrual account in the general ledger by $12,655.

The reconciliation for mortgage protection insurance also differed from that recorded in its corresponding account in the general ledger by $22,569.

The variances were not corrected at year-end.

The differences between the reconciliation and the ledger indicate that either the reconciliation or the ledger is incorrect.

Recommendation

The Authority should ensure that the variances are investigated and appropriate action is taken.

Management Comments

No comments received.

1.14 Incomplete Customer Loan Files

A review of customer files noted the following weaknesses:

- Loan offer letter not filed;
- Application processing checklist not filed;
- Loan application not filed; and
- Notes on loan reviews not documented or filed.

Missing documents increase the risk that loans and advances may have been approved incorrectly.

Recommendation

The Authority should ensure that customer files contain all relevant documents.

Management Comments

No comments received.

1.15 Transfer of Government Grants

During the year, the Authority transferred a portion of Government Grant balances to the H.O.P Government Grant account. The transfer was approved by the Board of Directors. However, no documentation was noted from Government to confirm the transfer of grants between or to other Government schemes.

It is understood that Government grants are given for specific purposes and schemes and funds should be maintained for such schemes. Where such schemes are discontinued Cabinet approval should be obtained prior to discontinue the scheme or to divert the funds.

Lack of approval from Government on the transfer of funds increase the risk that funds received for a specific purpose has been utilised for other purposes.

Recommendation

The Authority should maintain all relevant documentation and authorizations for transfers or diversion of grant money.

Management Comments

No comments received.

1.16 FNPF Deposits on Loans

Some customers use their superannuation eligibility with the Fiji National Provident Fund (FNPF) to finance their deposit for a housing loan.

The audit noted that receipt of customer deposits from the FNPF takes a long time. In some instances, the Authority financed the customer deposit and this is recovered when the customers deposit was received from FNPF.

In instances where FNPF does not approve the payment of deposits for a customer, the Authority unnecessarily increases its risk of financing 100% of the loan amount.

Recommendation

The Authority should work towards requiring FNPF to pay the deposit on the settlement date of the loan.

Management Comments

No comments received.

1.17 Incomplete Employee Files

Audit noted that some documents were not filed in the personal files of employees. Documents missing included the latest appointment letters, the salary adjustment slips and contract of service agreements. This was noted with the following employee files:

- Employee MC;
- Employee NS;
- Employee AV; and
- Employee MV

The absence of certain documents from employee files increases the risk of fraud and error.

Recommendation

Employee files should be updated with all documents and information on a timely basis.

Management Comments

No comments received.

1.18 Stale Cheques

The audit noted that stale cheques account was not cleared in a timely manner. Stale cheques were carried forward from 2003. The Authority's stale cheques as at 31/12/11 totalled $295,822.

Lack of proper reviews on this account has resulted in the balance of stale cheques accumulated over the years.

Recommendation

The Authority should ensure all account reconciliations are reviewed and stale cheques are cleared.

Management Comments

No comments received.

SECTION 2: REWA RICE LIMITED

Programme Statement

The Rewa Rice Limited (RRL) is a limited liability company incorporated on 8 March 1960. It is 100% owned by the Government of the Fiji Islands. The shareholders are the Permanent Secretaries for Finance and Public Enterprises.

RRL is a government commercial company with the principle objective of operating as a profitable and efficient business comparable to businesses that are not owned by the state. The company also has a community service obligation of helping promote the local rice industry by ensuring that there is a market for all paddy produced by farmers.

The principal activities of the company are purchases, milling and distribution of quality rice and associated products in Fiji. RRL aims to be the leading provider of quantity nutritious rice at prices consumers can afford.

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PART A - FINANCIAL INFORMATION

2.1 Audit Opinion

The audit of the financial statements of Rewa Rice Limited for the year ended 31 December 2008 resulted in the issue of a qualified audit report. The issues qualified are as follows:

The Company failed to provide general ledgers for all accounts for the year 2008 for audit verification.
Consequently tests were unable to be carried out to satisfy myself regarding the occurrence and completeness and disclosure of income totaling $533,216 and expenditure amounting to $685,343 as recorded in the financial statements.

Management attention was also drawn to the excess of liabilities over assets of $4,897,373 of which the principle components are advances and loans from government amounting to $6,725,382.

2.2 Statement of Financial Performance

As at 31 December	2008 ($)	2007 ($)
Revenue		
Sales	496,479	484,279
Cost of Sales	(469,527)	(565,443)
Gross Profit	**26,952**	**(81,164)**

As at 31 December	2008 ($)	2007 ($)
Other Income	246,806	264,011
Total Revenue	**273,758**	**182,847**
Expenditure		
Depreciation and Amortization	(27,536)	(34,678)
Personnel Expenses	(50,298)	(53,303)
Operating and Administration Expenses	(187,720)	(201,243)
Total Expenditure	**(265,554)**	**(289,224)**
Profit/(Loss) after income Tax	**8,204**	**(106,377)**

Rewa Rice Limited recorded a profit of $8,204 in 2008 compared to a loss of $106,377 in 2007. The profit is mostly attributed to the decreases in cost of sales by 17%.

2.3 Statement of Financial Position

As at 31 December	2008 ($)	2007 ($)
Current Assets		
Cash on hand and at bank	242,541	74,454
Other current assets	20,677	46,460
Inventories	24,648	151,093
Total Current Assets	**287,866**	**272,007**
Non - Current Assets		
Property Plant and Equipment	**1,652,632**	**1,705,172**
Total Assets	**1,940,498**	**1,977,179**
Current Liabilities		
Trade & Other Payables	109,475	154,597
Provisions	3,014	2,777
Total Current Liabilities	**112,489**	**157,374**
Non-Current Liabilities		
Advances from Shareholders	4,825,382	4,825,382
Loan from Government of Fiji	1,900,000	1,900,000
Total Non-Current Liabilities	**6,725,382**	**6,725,382**
Total Liabilities	**6,837,871**	**6,882,756**
Net Deficiency In Assets	**(4,897,373)**	**(4,905,577)**
Shareholders' Deficiency	**(4,897,373)**	**(4,905,577)**

Rewa Rice Limited recorded a net deficiency in Assets amounting to $4,897,373 in 2008 compared to $4,905,577 in 2007. The significant net deficiency in assets is the result of the outstanding loan from government and advances from the shareholders amounting to $1,900,000 and $4,825,382 respectively. These loans and advances are not being serviced by the Company.

PART B - CONTROL ISSUES

2.4 General Ledger

General ledger is a cumulative (year to date) book of account balances containing detailed transaction history. Financial statements are prepared from general ledgers.

The company failed to provide general ledgers for all accounts for the year 2008 for audit verification. The audit was informed that MYOB Accounting system had crashed resulting in loss of general ledger and the various efforts made to recover the general ledger turned futile. Additionally, no backup of the general ledger was maintained by the company.

The audit was not able to carry out tests to confirm the occurrence and completeness and disclosure of income recorded in the general ledger amounting to $553,216 and expenditure amounting to $685,343. Additionally, we were not able to test the completeness and valuation of inventories and provisions stated in the balance sheet with any other alternative means.

Income and Expenditure accounts may be incorrectly classified or reported in the income statement. Additionally, inventories and provisions balances may not be accurately recorded in the balance sheet.

Recommendation

The Company should ensure that back up of all general ledgers are maintained at all times.

Management's Comment

Due to time in which audit took place almost 4 years, during this period, the back up copy could not open due to virus, a back up copy was supplied to auditors but they could not open either. Hard copy was supplied to them for auditing. Requirements of auditors changed compared to what was kept, company noted the requirement of the general ledgers accordingly.

2.5 Going Concern

It is always necessary that the company operates with positive net assets to be sustainable in the long run.

The audit noted that as at 31 December 2008 there is an overall excess of liabilities over assets of $4,897,373 (2007: $4,905,577). Accordingly, there is significant uncertainty as to whether the company will be able to continue as a going concern and whether it will be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Failure to improve the company position will have an adverse impact on the future operations of the entity.

Recommendation

The entity needs to re-evaluate its operation and purpose of existence or seek government assistance to ensure that it operates in the future.

Management's Comments

RRL is 100% owned by Government, 80% of Liability is owed to Government of Fiji: RRL Board has decided and proposal given to Government to convert Loan to RRL, to Grant. Short term commitments are met by using RRL Sales and Rental Income.

2.6 Increase in the Price of Paddy

A thorough review of cost benefit analysis is important when considering increasing purchase price of raw materials. Relevant analysis such as the impact of additional cost to the company and the sharing of the increased cost by the company and consumers should be properly analysed and determined prior to the increase.

The audit noted that the company increased the purchase price of the Paddy to $650 per metric tonne without adequate analysis and implication of increased cost to the cost of the finished good. It was further noted that selling price remained unchanged after the increase hence the increased cost was wholly borne by the company.

Noting that the company was not doing well and with restricted cash flows, increasing purchase price of paddy resulted in the further deterioration to the company's cash flow. The action by the management and the board was not in the best interest of the company.

Recommendations

- **A proper analysis and review of increased cost should be carried out prior to increasing price of Paddy.**
- **The Board should be more vigilant in such type of decisions which have direct impact on the operations of the company.**

Management Comments

It was Manager's technique to encourage farmers to supply more paddies, since he was arranging for new Market FSC and to meet FSC order RRL needs sufficient supply of Paddy, thus Manager recommended the price of Paddy to increase.

2.7 No Documentation for Reconciliation and Monthly Stock take Of Inventories

It is highly imperative that documentation for monthly stock count of inventory and its reconciliation to accounting records are maintained to show evidence of adequate control over inventories**.**

The audit noted that no documentary records were maintained to show that monthly stock counts were carried out by the company and reconciliation of such count were done with accounting records.

Lack of documentary evidence of monthly stock counts and reconciliation to accounting records kept increases risk of mismanagement of stock.

Recommendation

It is highly recommended that documentary evidence of any stock count and reconciliation to accounting records are maintained and should be reviewed and initialled by the management as an evidence of its review.

Management Comments

Inventory reconciliation is system oriented; manual stock card and physical stock counting is done to balance the inventory in the system accordingly. The company is practicing procedures set by audit before, approved by officer in charge.

SECTION 3: PACIFIC FISHING COMPANY LIMITED

Pacific Fishing Company Limited (PAFCO) has been trading since 1987 and is owned principally by the Government of Fiji. The company is 98% owned by the Government of the Fiji Islands with local investors owning the remaining 2%. The company is controlled by a non-executive board of directors appointed by the Government.

The principal activity of the company is processing and canning fish for local and overseas markets.

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PART A – FINANCIAL INFORMATION

3.1 Audit Opinion

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

3.2 Abridged Income Statement

As at 31 December	2011 ($)	2010 ($)
Income		
Sales	17,470,519	29,896,444
Other Income	867,996	1,155,509
Total Income	**18,338,515**	**31,051,953**
Expenditure		
Raw materials and consumables used	6,511,969	7,697,169
Changes in inventories of raw materials and finished goods	398,693	(89,736)

As at 31 December	2011 ($)	2010 ($)
Distribution costs	269,852	629,495
Staff and employee benefits	4,929,693	8,552,852
Depreciation and amortization expense	2,037,909	2,418,208
Finance costs	258,650	286,996
Other operating expense	7,395,086	10,140,265
Total Expenditure	**21,801,852**	**29,635,249**
Operating (loss)/profit before income tax	**(3,463,337)**	**1,416,704**
Income tax (expense)/ credit	(883,021)	(182,485)
Net (loss)/ Profit for the year after Income Tax	**(4,346,358)**	**1,234,219**

PAFCO recorded a net loss of $4,346,358 compared to a profit of $1,234,219 incurred in 2010. The significant net loss was due to decline in sales amounting to $12,425,925 resulting from the temporary shutdown of the production of loaning division which is the main revenue earner of the Company.

3.3 Abridged Balance Sheet

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash at bank and on hand	21,414	48,630
Trade receivables	2,257,057	4,079,404
Inventories	2,734,733	4,666,364
Prepayments and other receivables	656,979	1,821,086
Total Current Assets	**5,670,183**	**10,615,484**
Non-Current Assets		
Property, plant and equipment	21,969,691	23,320,730
Deferred tax asset	247,594	1,118,957
Total Non-Current Assets	**22,217,285**	**24,439,687**
Total Assets	**27,887,468**	**35,055,171**
Current Liabilities		
Interest bearing borrowings	3,030,794	5,005,311
Trade and other payables	2,493,795	3,070,331
Provisions	68,934	93,532
Total Current Liabilities	**5,593,523**	**8,169,174**
Non-Current Liabilities		
Deferred tax liability	11,659	-
Deferred income	5,397,068	5,654,421
Total Non-Current Liabilities	**5,408,727**	**5,654,421**
Total Liabilities	**11,002,250**	**13,823,595**
Net Assets	**16,885,218**	**21,231,576**
Share Capital	14,800,000	14,800,000
Retained Profits	2,085,218	6,431,576
Net Accumulated Fund	**16,885,218**	**21,231,576**

The company's net asset declined by $4,346,358 or 20.5% in 2011 compared to 2010. The decline was mostly due to decline in inventories and trade receivables amounting to $1,931,631 and $1,822,347 respectively in 2011.

PART B – CONTROL ISSUES

3.4 Financial Manual

A Finance Manual sets out policies and procedures needed for the efficient and effective management of the company and effective internal controls. It is also a function of good corporate governance.

The Finance Manual should be drafted in accordance with the Public Enterprise Act and any other regulations relating to the company's operation. It should also include the delegations of authority to senior management including the Board.

Our audit noted that the company does not have a Finance Manual.

In the absence of a Finance Manual, the audit was not able to establish whether prescribed procedures and/or requirements for financial operations of the company were complied with.

Recommendation

PAFCO should ensure that immediate actions are taken to ensure that a Finance Manual is drafted, approved and implemented immediately.

Management Comment

Company at this stage is in the process of implementing Human Resources and Purchasing Manual. After the success implementation of these 2 manuals, company will work on Finance manual.

3.5 Minutes of the Board meeting not properly kept

It is essential that all the minutes of the Board meetings be properly kept by the Board Secretary.

Our review found that minutes for the last quarter and Annual General Meeting (AGM) for the year ended 2011 were not in the Minutes book. Additionally, the Board Secretary failed to locate the minutes upon audit enquiry.

Failure to maintain Board meeting minutes indicates poor administration of secretarial works of the Board. Additionally, any resolutions made by the Board in its recent meeting and AGM could not be substantiated.

Recommendation

The Board Secretary should ensure that the minutes of all the Board's meeting are properly maintained. Board meeting minutes should be immediately typed after the completion of the Board meeting.

Management Comment

Board Minutes, including Committee Meetings are now attached to Minute Book.

3.6 Risk Management Policy

Risk management policy involves the identification, measurement and control of key risks that impact the financial affairs and operations of an organisation.

Our review found that the company does not have a risk management policy in place.

The existence of risk management policy has the potential to assist the company in appropriately identifying threats to their effective and efficient operations.

Recommendation

PAFCO should work towards preparing a risk management policy.

Management Comment

In order to identify, measure and control risks that impact financial affairs of the operation, internal control procedures is set up and monitored by the Financial Controller. Some of these controls include separation of duties, rotation, banking intact, etc. Company also engages with a charted accounting firm for internal audits to have better risk Management.

3.7 Property Plant and Equipment

Proper and stringent controls should be in place to manage the company's property, plant and equipment. Policies and procedures relating to accounting and overall management of the assets should be introduced to ensure that assets are appropriately accounted for and managed effectively. Equally important is the maintenance of proper records to provide evidence for the existence, the accounting and management of fixed assets.

The review of company's property, plant and equipment the revealed the following anomalies;

- The company does not have a formal procedure and guideline in place to manage its properties plant and equipment. The following unwritten requirements are in place:

  (i) any new additions require the approval of Financial Controller and any addition above $10,000 needs the approval of the Board.
  (ii) additions above $1,000 are capitalised.

- Board meeting minutes approving the acquisition of motor vehicles totaling $230,841 was not provided for audit verification.

- Physical and impairment review of the property, plant and equipment for the year 2011 was not carried out.

- A Mitsubishi Nativa 4WD (registration number FD798) with a WDV of $13,200 was sold to the former Chief Operating Officer (COO) of PAFCO for $12,000. This vehicle was a fringe benefit to the former COO and discussion with the Accountant revealed that the former COO had the preferential right to buy this vehicle during the time as specified in his contract. The audit was not able to verify this severance benefit clause as the former CEO's contract was not provided for audit verification. Hence, audit could not ascertain if proper procedures were followed to sell off this vehicle.

The lack of adequate and proper controls relating to property, plant and equipment and the failure to have a policy manual on acquisition, sale, disposal and maintenance of fixed assets may result in mismanagement of company's assets.

Recommendations

- **In the absence of a Finance Manual, the company should draft a guideline for purchasing, sale and disposal of its property, plant and equipment.**
- **A comprehensive and thorough Board of Survey of company's assets should be undertaken to ensure that the Fixed Asset Register is accurate, complete and properly classified.**
- **The company should ensure that a proper tender process is followed for the sale of its fixed assets.**
- **Board approval should be made available for all major purchase of capital items.**

Management Comment

- *Company is in the process implementing Purchasing manual which will cover the guideline in place to manage its property, plant and equipment.*
- *Physical review of the property, plant and equipment was carried out last year. It has been approved by Ministry of Public Enterprise to conduct valuation of PAFCO's property, plant and equipment. During the valuation, we will conduct physical and impairment review of property, plant and equipment.*
- *Sales of COO's vehicle. The selling of Mitsubishi Nativa 4WD (registration number FD798) to the outgoing COO was approved in a Board Committee Meeting held on Monday 16th May 2011.*
- *The company has also set up Tender Committee whereby the sale of Assets, Purchase of Assets and Contract Awarded to any company is done through a Tender Process.*

3.8 Lack of segregation of duties In Suva office

It is a basic internal control measure that there is adequate segregation of duties to prevent risk of fraudulent activities and manipulation of data for personal gain or for concealment of irregularities or financial losses.

The audit noted that there is no segregation of duties in the Suva office. Sales and Marketing coordinator was noted to be carrying out all important duties related to cash and inventory including receiving, processing and recording of cash and inventories.
The absence of segregation of duties increases the risk of fraudulent activities occurring.

Recommendation

The company should ensure that there is segregation of duties in the Suva Office.

Management Comment

We will ensure that there will be segregation of duties in the Suva office.

3.9 Petty cash

Petty cash is easy to use but can be subject to theft and poor control. For good internal control, proper procedures help prevent loss and misuse.

Staffs were using personal cheques for recovery of petty cash fund. This is evidenced during audit visit to the Suva office on 30/03/2012 where a surprise cash count was performed. Personal cheque of $300 was written in the presence of the auditors. The petty cash payment summary as per petty cash voucher had exceeded the total petty cash fund of $1,500.

The anomaly indicates poor internal control procedure over petty cash fund. Having large amount of cash on hand (over $1,000) increases the risk for theft.

Recommendation

The company should instigate stringent control over use of petty cash fund.

Management Comments

The cash in Suva Office is from the sale of canned tuna and mackerel – all cash is banked every second day. The FC will now take a cash count on every visit to Suva Office – at least once every 6 weeks

3.10 Engagement of contractors for the renovation and extension of PAFCO factory

PAFCO engaged the services of an Architect Company for the Renovation and Extension of PAFCO Factory.

On 13 April 2010, the Architect Company called for tender for the Renovation and Extension of PAFCO. The following discrepancies were noted for the project:

3.10.1 Invitation to Bid not advertised in the Newspaper

For large or specialised contracts such as the renovation and extension of PAFCO, it is required that the invitation to bid and/or procurement notices be advertised in the local newspapers in sufficient time to enable prospective bidders to prepare and submit bids.

The purpose of advertising the bidding in the local newspapers is to provide PAFCO with a wide range of choices in selecting the best bid from competing contractors and to give all prospective bidders adequate, fair, and equal opportunity to bid on works which are being procured by PAFCO.
It was noted that the extension project for PAFCO which involved a substantial sum of company funds was not put out for public tender. Instead, the company conducted a Request for Tender (RFT) on 13 April 2010 where only selected number of suppliers was invited to bid for the project works.

Five companies submitted their tender which was opened on the 30 April 2010. Scrutiny of the Board Meeting Minutes dated 22 July 2010 revealed that the Architect Company recommended that Tender be awarded to a Construction Company A since it offered the lowest price of $1,252,000 which was further reduced to $1,242,000 after a discount of $10,000.

Audit is of the opinion that the tender process was not fairly carried out since it was not advertised in a local newspapers.

There was a possibility that the some other company would have offered lower amount than that offered by Construction Company A.

Recommendation

For such works where a lot of suppliers are available locally the company should consider having a public tender instead of a Request of Tender (RFT). RFT should only be conducted for services where only limited suppliers are available locally.

Management Comments

Upon enquiry with the consultant it was revealed that the RTF was suitable for Levuka because past experience has revealed that most contractors and suppliers outside Ovalau are either reluctant to commit themselves due to geographical and associated challenges or have put in astronomical bids for services to be conducted in Ovalau.

3.10.2 Variation of Contract

The Architect[1] Company may issue instructions requiring a variation and he may sanction in writing any variation made by the Contractor otherwise than pursuant to an instruction of the Architect No. Variation required by the Architect Company or subsequently sanctioned by him shall vitiate this contract.[2]

Our review of the payments made to Construction Company A revealed that PAFCO paid a total sum of $1,576,211.60 compared to the contract Amount of $ 1,242,000. The Architect Company approved a total variation of $309,742.80 or 24.94 percent of the contract amount in the early stages of the contract. It was noted that the Board failed to monitor the variations of $309,742.80 since the authority to approve the variation was delegated to the Architect Company.

The above findings indicate that improper planning by the company resulting in the variation of $309,742.80.

Recommendation

The company should conduct an investigation into the causes of the variation and take recovery action for the variation amount from the responsible personnel.

Management Comments

Variation was carried out after consultation between the Architect, Contractor and the Chief Operating Officer.

3.10.3 Payments without approval

The Contractor shall comply with all instructions issued to him by the Architect in regards to any matter in respect of which the Architect is expressly empowered by these conditions to issue instructions.

Our review of the payment voucher dated 8 February 2011 with cheque number 21376 revealed that a payment of $24,468.75 to Construction Company A was not certified by the Architect Company.

Review of the certificate payments to Construction Company A revealed that the $24,468.75 was not included in the certificate payments certified by the Architect Company hence there was a discrepancy

[1] Architect Company
[2] Articles of Agreement Between Pacific Fishing Company Limited and Construction Company A dated 13/05/10 – Clause 11(1)

between the Architects Progress Report and the total amount actually paid to the Contractor. Refer to Table 3.1 for details.

Table 3.1: Payments made to Permal Construction

Contractor	Total Amount Paid ($)	Total Amount as per the Architects Certificate ($)	Variance ($)
Construction Company A	1,576,211.60	1,551,742.80	24,468.80

The above findings indicate that the Accounts Department failed to carry out reconciliation of Architects certificate and contractors claim prior to making a payment.

There is a risk that the variance amounting to $24,468.80 may have been incorrectly paid to the contractor.

Recommendation

The company should ensure that all contract certificates are certified by the Architect Company before the payments are processed.

Management Comment

Payments were processed on contract certificate certified by the Architect Company. For variance as stated amounting to $24,468.80 in the report, Construction Company A was awarded a separate job during 2010 Plant Shut down.

3.11 Lapse of insurance cover

It is an important risk control measure that all assets of the Company are adequately insured against any possible loss or damages.

Our review of insurance cover for company's assets revealed that it failed to renew insurance policy on time. Additionally, the company failed to provide a written documentation from the insurer which could indicate that the company's assets were covered during the period of non-payment of insurance. Refer to Table 3.2 for details.

Table 3.2: Period for which there was no insurance cover

Description	Period of Cover	Total Number of Days	Amount ($)
Fidelity Guarantee	31/09/11 to 31/09/12	92	913.00
Products Liability	31/09/11 to 31/09/12	92	8,275.00
Public Liability	31/09/11 to 31/09/12	92	1,587.50
Directors and Officers	31/09/11 to 31/09/12	92	1,725.00
Material Damage and Business Interruption	31/09/11 to 31/09/12	92	130,081.45
Medical	31/09/11 to 31/09/12	92	7,311.09
Personal Accident	31/09/11 to 31/09/12	92	3,725.00
Travel	31/09/11 to 31/09/12	92	565.22
Marine Cargo	31/09/11 to 31/09/12	92	5,456.52
Money	31/09/11 to 31/09/12	92	215.22
Burglary	31/09/11 to 31/09/12	92	253.26

Description	Period of Cover	Total Number of Days	Amount ($)
Fire	31/09/11 to 31/09/12	92	703.46
Domestic Building and Contents	31/09/11 to 31/09/12	92	2,300.00
Motor Vehicle	31/09/11 to 31/09/12	92	5,874.14
Workmen Compensation	31/09/11 to 31/09/12	92	12,275.00
Workmen Compensation	31/09/11 to 31/09/12	92	(2,405.97)
Total			**178,854.88**

Lapse in insurance cover on the company's properties exposes it to operational risk.

Recommendation

PAFCO should consider implementing controls that will enable it to renew insurance policy immediately after it has lapsed.

Management Comment

We will ensure that PAFCO will renew insurance policy on time. If for some reason it is not insured on time, we will have written documents from Insurance Broker to protect company's assets.

3.12 Payment of Leave Compensation to Former CEO

The proper management of expenditure is fundamental to ensuring value-for-money in delivering services to the community.

Our audit of the payroll report revealed that the Company paid a total of $41,000 to the former CEO as leave compensation.

It was noted that the officer's leave schedule was not updated hence audit was not able to substantiate the basis on which the leave compensation was computed. The schedule was last updated on 31/12/2002. It was further noted that the payment of leave compensation was approved by the former CEO himself.

Discussions with the Human Resource Manager revealed that the former CEO personal file was maintained by himself (CEO) and not with the Human Resource Manager.
The above findings indicate that the former CEO may have abused his powers by approving his leave compensation.

Recommendation

PAFCO should establish how the amount paid was calculated and the authority of payment made before considering taking any corrective actions.

Management Comment

The leave pay-out was approved in a Board Committee Meeting held in Suva on Monday 16th May 2011.

3.13 Increase in salary without High Salaries Commissions approval

The functions of the Commission shall be to consider and determine the salary of the Chief Executive Officer of each of the corporations and bodies specified (either by name or by class) in the First Schedule and the salaries of the holders of such other offices in those corporations and bodies as the Commission may prescribe;[3]

Our review of the former Chief Operating Officer (COO) personnel file revealed that he was appointed as COO for a period of three years with effect from 1 November 2007 and was remunerated at base salary of $98,750. On 2 October 2009, the Chairman of the Board, increased the COO's salary to $110,000.

It was also noted that the Chairman of the Board had determined the salary and approved the salary increment without High Salaries Commissions approval. It was further noted that for the year 2011, the COO salary had increased to $120,000 however; the approval from the Board was not produce for audit verification.

The above findings shows total disregard of the instructions stipulated in the High Salaries Commission Act.

Recommendation

PAFCO should ensure that prior approval should are obtained from relevant Authorities before increasing the salaries of officers.

Management Comment

Comments noted and all future approvals will be in accordance with the relevant guidelines

3.14 Overpayment of Leave Compensation to Human Resource Manager

Having cost-effective internal controls within the purchasing and payments system plays an important part in ensuring that waste of funds, over-expenditures and fraudulent activities do not occur.

The audit gathered that the Human Resource Manager requested the payment of leave compensation which was due to him. The Company paid the officer a sum of $13,598.35 on 2 June 2011 through cheque number 21448. Our review of the officer's leave schedule revealed that the officer's leave year was from 31 May 2010 to 1 June 2011.

It was further noted that the officers annual leave balance as at 31 December 2010 and 1 January 2011 were 47.5 days and 67.5 days respectively. The officer's new leave year entitlement of 20 days was added on 1 January as soon as the year started and not on the beginning of his leave year. As a result, the Human Resource Manager was compensated for 67 days annual leave and not on the actual leave balance of 47.5 days. This resulted in the officer being overcompensated by $4,062.50. Refer to Table 3.3 for details.

Table 3.3: Overpayment of Leave Compensation

Description	Company's Calculation	Audit Calculation	Variance
Leave balance	67	47.5	19.5

[3] Higher Salaries Commission Act Cap 2A – Section 11(1) (a)

Description	Company's Calculation	Audit Calculation	Variance
Rate per hour	$26.04	$26.04	$26.04
Hours per day	8	8	8
Total leave compensated	**$13,958.35**	**$9,895.85**	**$4,062.50**

The above findings indicate that the officer's leave was not properly administered. Additionally, the Accounts section failed to independently verify the correctness of the leave balance and the amount payable prior to making the leave payment.

<u>Recommendation</u>

Overpayments should be immediately recovered from the relevant officer.

<u>Management Comment</u>

HR M's leave year is from 01 June to 31 May the following year. The pay-out was calculated to include the allocation for the new leave year which began on 01 June 2011.

SECTION 4: FIJI BROADCASTING CORPORATION LIMITED

The Fiji Broadcasting Corporation Ltd (FBCL) is a government commercial company corporatized in 1998 under the government's public sector reform programme.

The FBCL is responsible for providing commercial and public broadcasting services nationwide and operates six radio stations in the three major languages of Fijian, Hindustani and English.

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PART A – FINANCIAL INFORMATION

4.1 Audit Opinion

The audit of the financial statements of Fiji Broadcasting Corporation Limited for the year ended 31 December 2009 resulted in the issue of an unqualified audit report.

4.2 Income Statement

Year Ended 31 December	2009 ($)	2008 ($)
Revenue		
Advertising, programs and special events	3,081,777	3,031,931
Public service broadcasts	986,667	986,667
Other operating revenue	217,280	243,234
Total Revenue	**4,285,724**	**4,261,832**
Expenditure		
Administrative and operating expenses	3,578,728	3,325,986
Market expenses	477,863	413,555
Financial costs	18,420	33,716
Total Expenditure	**4,075,011**	**3,773,257**
Profit before Income Tax	**210,713**	**488,575**
Income Tax Expense	92,796	6,757
Net Profit	**117,917**	**481,818**

The Corporation recorded a decrease net profit of $117,917 in 2009 compared to a profit of $481,818 in 2008. The decrease in Net Profit was largely due to increase in administrative and operating expenses.

4.3 Balance Sheet

As at 31 December	2009 ($)	2008 ($)
Current Assets		
Cash	507,119	637,155
Restricted cash	5,589,073	-
Trade and Other receivable	838,861	1,164,317
Held-to-Maturity term deposit	936,773	43,773
Other assets	125,931	43,249
Total Current Assets	**7,997,757**	**1,888,494**
Non Current Assets		
Property, plant and equipment	7,639,786	1,894,802
Deferred tax assets	56,473	50,852
Total Non Current Assets	**7,696,259**	**1,945,654**
Total Assets	**15,694,016**	**3,834,148**
Current Liabilities		
Trade and other payables	512,911	326,946
Interest bearing borrowings	-	174,862
Employee entitlements	39,016	31,999
Deferred income	14,858	68,414
Provision for income tax	128,750	-
Total Current Liabilities	**695,535**	**602,221**
Non Current Liabilities		
Interest bearing borrowings	11,865,381	195,220
Deferred Income	33,156	24,347
Deferred tax liabilities	29,293	59,626
Total Non Current Liabilities	**11,927,830**	**279,193**
Total Liabilities	**12,623,365**	**881,414**
Net Assets	**3,070,651**	**2,952,734**
Shareholders' Equity		
Issued Capital	200,002	200,002
Share premium reserve	3,913,355	3,913,355
Accumulated losses	(1,042,706)	(1,160,623)
Total Shareholders' Equity	**3,070,651**	**2,952,734**

Total Shareholders' Equity increased by $117,917 or 4% in 2009 compared to 2008. This was mainly due to increase in total assets which resulted from the booking of restricted cash in 2009.

PART B – CONTROL ISSUES

4.4 Missing Receipts

As a good internal control measure the Chief Financial Officer is responsible for the safekeeping and proper maintenance of all accounting records or documents.

The audit of the revenue records noted that the following sequences of receipts were missing from the receipt book and had not been posted in the system.

- Receipt # 90681 – 90684
- Receipt # 89589 – 89592

Upon inquiry, a fraud perpetrated by an employee was revealed. Missing receipts 90681 - 90684 amounted approximately $2,000.00 was unaccounted for. However, for receipt numbers 89589 to 89592, management could not quantify the actual loss as it mainly relates to cash sales.

Improper accounting of receipts exposes the company to risk of fraud.

Recommendations

- **All receipts should be sequentially used and accounted for completely and accurately on a daily basis and reconciled to the daily takings before the money is being deposited to ensure that all receipts issued are appropriately being accounted for.**
- **All posting of receipts in the general ledger should be performed in batches and in sequential order and appropriate controls be implemented by Chief Financial Officer to monitor the receipts depositing and posting in the system. Necessary check should be carried out promptly and evidenced.**
- **The Board of Directors should consider for a fidelity insurance cover for the Company.**

Company's Comments

Case 1: Missing receipts #90681 – 90684

A case of fraud perpetrated by an employee of receipting & taking cash and removing the evidence of the payment was later identified and reported to the police. The staff concerned admitted to the theft and was terminated from employment after the investigations.

Case 2: Missing receipts #89589-89292

A suspected case of fraud perpetrated by an employee however actual loss could not be quantified and the employee responsible was not discovered. No further details could be obtained.

Stringent internal control procedures are now in place for receipting and checking. Receipt books are checked daily by the Team Leader – Customer Service, and the Accountant before any cash is banked. Any handover between customer service staff at the change of shifts also includes a full check of the receipt book. A reconciliation of all deposits is also carried out weekly to check for any discrepancies. All the receipts posting by the Credit Controller to General Ledger is verified by the Accountant before it is posted on the system. Additionally, Chief Financial Officer performs a final check of Receipts Entry via Deposit Reconciliation report on a monthly basis.

4.5 Contra-Accounts

FBCL annually engages in counter-party agreements to provide services in exchange for services from counter-party or parties. The condition of the agreements require FBCL and counter-parties to exchange monthly bills to ensure that services provided to each other does not exceed the value as per the agreement. Furthermore, any services provided to each party exceeding the agreed value need to be reimbursed.

The audit of these agreements noted the following anomalies:

- Non compliance with the condition of the agreements i.e. no records of bills exchanges on a monthly basis between the parties to ensure compliance or otherwise with the terms of the agreement.
- Non compliance of accounting treatment of contra-accounts i.e. the International Accounting Standards on Revenue (IAS 18) states that "....when the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised..."

Examples of contracts of companies in which exceptions were noted are as follows:

- FRU
- Newspaper company
- Television company
- Hibiscus Event Group

Lack of adequate mechanisms in monitoring the extent and value of services provided can lead to a financial loss in that the service provided may be in excess of the agreed value and ultimately resulting in the under billing for the services provided.

Improper accounting treatment of contra-accounts and inability to monitor the services provided in exchange of services may result in the misstatement of the revenue and expense balances.

Recommendation

The Chief Financial Officer should ensure that all conditions set out in the contra-account agreement are complied with at all times so that there is no financial loss in respect of each contra account agreements. In addition, the effects of these transactions should be brought to account in the books of FBCL on a timely basis to ensure compliance with the IAS 18.

Company's Comments

The company has, since 2010, recorded all contra transactions as per the following points:

- *Completion of the booking sheet once the LPO is received*
- *Entry of the booking on "Airwaves" at full agreed contra value.*
- *Journals are posted against these entries which correspond to the value of the services which we obtain from the other party. LPOs are issued by FBC, at agreed value, for those services.*
- *Monthly contra invoices are issued to these clients.*
- *Both services provided to and received from these partners are recorded in the financials.*

There are certain sponsorship arrangements e.g. FRU where we provide airtime to either FRU or to its partners where there is no billable or quantifiable service gained in return. This is also the case with the Hibiscus Events Group.

4.6 Accounting treatment of Off-Shore Escrow Bank Account

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

(a) It is probable that future economic benefits associated with the item will flow to the entity; and
(b) The cost of the item can be measured reliably.[1]

[1] IAS – Section 16

During the financial year 2009, FBCL engaged into an agreement with an off-shore contracting company for the supply of various broadcast and studio equipment for radio and television.

As per the agreement FBCL upon signing of the contract was to make a deposit of 80% (approximately FJD $10.5m) of the total project costs into the off-shore contracting company nominated bank account held with an overseas based financial institution and managed by an overseas Chartered Accountants firm.

Upon signing FBCL deposited the required funds via loan from FDB and managed by FDB into the Trust account management by KDB. The total amount transferred from the FDB loan accounts was incorrectly capitalised by FBCL as work in progress in the financial statements.

The transfer of fund to off-shore bank account and held in trust until confirmation of shipment of equipment is more in the nature of restricted cash.

Restricted cash can be defined as cash not available for immediate use. Such cash cannot be used by a company until a certain point (confirmation of readiness of shipment of equipment) or event in the future.

Based on the materiality of the restricted cash, the balance can be classified as part of cash and cash equivalents or separately in the balance sheet. Depending on when cash is expected to be used, restricted cash can be classified as a current (short-term) and non-current (long-term) asset.

Hence in the Company’s financials the off-shore cash deposit has been classified as restricted cash and disclosed separately in the balance sheet as such.

Incorrectly capitalisation is incorrect and misleading.

Recommendation

The Chief Financial Officer should ensure that assets which are restricted in nature are treated as such in the financial statements.

Company’s Comments

Since the cash had been taken from the loan account at FDB for the project and all the transactions were initially projected for full completion within a few months this initial entry of capitalisation of loan drawdown was intended to be capitalised within months. We did not re-examine this transaction when end of year accounts were prepared to separately disclose escrow balances. While this makes no difference to the net assets of the company, this transfer between balance sheet accounts is a required disclosure under the Standards.

4.7 Review of Aged Debtors Report

An allowance is made in respect of debts considered doubtful based on a review of individual outstanding amounts at year end. Bad debts are written off during the year in which they are identified.[2]

The Audit of the provision for doubtful debts records noted that there was a lack of monitoring of aged debtors report and assessment for recoverability of doubtful debts.

[2] FBCL Financial Statements 2009 – Note 2 – Summary of Significant Accounting Policies – Part b

As such review of aged debtors report as at August 2011, revealed that several 2009 debtors had not paid up their accounts for which no corresponding provision for doubtful debts had been raised. Refer Table 4.1 for details.

Table 4.1: Long Outstanding debit remained unpaid

Particulars	Amount ($)
Associated Media	6,125.00
Pro Rig – Delaikoro Towers Deposit	6,649.82
Kana Mada – Rent	4,450.00
Kana Mada – Rent – Dec 2009	350.00
TPAF Reimbursement – Training by Penelope Webster	2,512.00
TPAF reimbursement – Training @ FIT by Manasa	495.00
Wilderness Ethnic Adventures	33,125.00
Trade Booths Hibiscus 07(MH/LICI/ASCO)	6,187.50
Radio Tarana – Hire of FBC MC for Fiji Day in NZ	390.00
Radio Tarana – container for flood appeal	9,305.31
Radio Tarana – Bobby Darling show	300.00
Radio Australia – Repair of RA Satellite dish in Nakobalevu	2,556.01
Deposit for hire of Nobile House – Hibiscus Fundraiser	2,500.00
Returned Cheque – PRN Pacific – SOS 2009	210.00
Audio Video Consulting – Flashnet for Simon	221.33
Total	**75,376.97**

Lack of periodic review and monitoring of aged debtors report may result in bad debts and provision for doubtful debts being misstated.

Recommendation

The Head of Finance should ensure that all debtors are reviewed on a monthly basis and appropriate action taken against non paying debtors to avoid the risk of bad debts. A minute for such reviews should be maintained.

Company's Comments

Aged Debtors lists are reviewed on a monthly basis. It is still our opinion that the existing provision was adequate for what debts might be written off. An example of this is the $22,000 that was provided for the Prime Minister's office of $22,806.54. FBC had always maintained they could collect this amount. This week $16,000 of this debt was collected.

However FBC will create additional provisions in the case of long outstanding debts where we have nothing in writing to support imminent recovery.

4.8 Debtors Collection

It is important that the Council maintain age of debtors report at all times. Age of debtors report will help the corporation identify the slow paying debtors and prompt action could be initiated.

The audit of the trade debtors records noted that the average debt collection period for the year ended 31 December 2009 was 64 days. The average debt collection period significantly exceeds the company's credit policy of 30 days; indicating a laxity in credit control procedures or efforts. Further, interest is not being charged on overdue accounts.

Increases in debtor days outstanding may indicate laxity in credit control procedures. This could mean a greater risk of default or bad debts. It could also be an indicator that cash flow is likely to weaken.

Recommendation

The Head of Finance should ensure that a firm credit policy be established and complied with.

Company's Comments

FBC has reviewed its credit control procedures several times and has communicated to its clients in writing the reminder about 30 day accounts, and the company's policy of stopping the provision of further services to any client where the account has gone to 60 days – unless special payment arrangements have been reached.

The Credit Application Form was reviewed this year and a new one issued to increase the chances of success of any claim against a client with an account.

4.9 Risk Management (RM)

The audit noted that there is no formal risk management framework and policy. Consequently there are no formalised risk management procedures, guidelines and tools to enable an end-to-end organisational risk management capability. There are no risk registers which details risks and treatment plans.

Organisations which have a mature RM framework use RM as an effective planning tool to which their business planning cycle is heavily linked.

There are a number of benefits that risk management can realise including:

- Delivering Value

- Improved planning and management – RM drives the proactive management of risk and develops an action oriented organisation. RM will help FBCL identify areas of concern, areas with weak controls and failure points in its business plan, day to day operation, and projects. Once identified, these areas can be prioritized, so that controls can be developed in a more targeted and cost-effective manner. It is simply a matter of balancing the amount of risk you will tolerate with the benefits that could be realised.
- Reputation – A robust risk management regime can be seen as very positive in the eyes of clients and other stakeholders and hence could boost FBCL's reputation.
- Business Continuity – to provide assurance of non-stop service to clients.

- Avoiding Surprises

- Anticipating and managing risks is a key to handling change. RM can identify and strengthen areas where controls are weak. This can reduce the number of incidents of unexpected events.

- Regulatory Compliance

- Corporate governance codes require management to demonstrate that risks are effectively managed. Corporate officers can be personally accountable and potentially liable for non – compliance.
- RM provides critical input to enable organisations to effectively operate and prioritize their audit program.

Recommendation

The Chief Executive Officer should ensure that a formal risk management framework and policy is drawn which could be used as an effective planning tool to which the Company's business planning cycle will be heavily linked.

Company's Comments

Although a formal risk management framework has not been implemented, most of the elements of a formal risk management framework have been incorporated into the annual plans, and therefore into the budgets.

There were no questios asked by the auditors about what risk management strategies were already embedded in the organisation's policies and procedures, in the annual plans, and into the budgets.

A formal risk management framework and policy will be drawn up by the end of 2012.

SECTION 5: FIJI MEAT INDUSTRY BOARD

The Fiji Meat Industry Board was established in 1976 by the Meat Industry Act of 1970 to regulate and control the slaughtering of livestock. The functions of the Board include the following:

- to construct and operate public slaughtering facilities as approved by the Minister;
- to take all steps, with the approval of the Minister, deem desirable for purposes connected with the protection, preservation and expansion of the meat industry in Fiji;
- with the approval of the Minister, to borrow such capital monies as may be required; and
- when directed by the Minister, to purchase trade or deal in livestock or meat.

The functions of the Board are largely servicing and regulatory.

The Fiji Meat Industry Board became a restructured Commercial Statutory Authority from 2006.

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PART A - FINANCIAL INFORMATION

5.1 Audit Opinion - 2011

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2011 resulted in the issue of an unqualified audit report.

5.2 Abridged Consolidated Income Statement

Year Ended 31 December	2011 ($)	2010 ($)
Revenue		
Abattoir	3,450,527	3,626,285
Other Income	83,547	100,679
Total Revenue	**3,534,074**	**3,726,964**
Expenditure		
Staff Costs	837,867	848,881
Change in Inventories – Finished Goods	1,071,338	1,290,712
Raw Materials and Consumables Used	299,099	267,478
Other Operating Expenses	1,226,383	1,125,438
Total Expenditure	**3,434,687**	**3,532,509**

Year Ended 31 December	2011 ($)	2010 ($)
Profit From Operations	99,387	194,455
Finance Cost	(136,454)	(148,260)
Profit/(Loss) Before Tax	**(37,067)**	**46,195**
Income Tax Expense	-	-
Profit/(Loss) After Tax	**(37,067)**	**46,195**

The Board's income derived mostly from abattoir charges and magiti sales decreased by $192,890 or 5.2% in 2011 compared to 2010 due to decrease in magiti and cattle sales. A net loss of $37,067 was recorded in 2011 compared to a net profit of $46,195 in 2010.

5.3 Abridged Consolidated Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash And Cash Equivalents	360,952	326,799
Receivables	281,043	386,762
Inventories	97,157	127,825
Total Current Assets	**739,152**	**841,386**
Non – Current Assets	**1,305,772**	**1,288,626**
Total Assets	**2,044,924**	**2,130,012**
Current Liabilities		
Trade and Other Payables	272,855	309,707
Borrowings	1,273,876	1,285,045
Total Liabilities	**1,546,731**	**1,594,752**
Net Assets	**498,193**	**535,260**
Equity		
Reserves	443,186	443,186
Accumulated Fund	55,007	92,074
Total Equity	**498,193**	**535,260**

The Board's net assets decreased by $37,067 or 6.9% in 2011 compared to 2010 due to decline in receivables by $105,719 (27%) and inventories by $30,668 (24%).

PART B - CONTROL ISSUES

5.4 2010 Follow – Up Misappropriations

Audit was informed in 2010 that a sum of $23,557.25 was misappropriated by the former cashier[1] which at the time of the audit[2], was still appearing in the books of the Board. Refer to Table 5.1 below for details.

Table 5.1: Funds Misappropriated

Date	Amount ($)
26/10/10	4,596.50
02/11/10	18,960.75

[1] Francis O' Neil
[2] 06/08/12

Date	Amount ($)
Total	**23,557.25**

The misappropriation was reported to the Board and subsequently referred to the Police Department but the matter was still under court deliberation.

There is a high risk of misappropriation of funds when lodgements are not done on a daily basis and cash records not thoroughly checked by the Finance Manager.

Recommendation

Cash management is a high risk area therefore cash records should be thoroughly scrutinised by the Finance Manager on a regular basis to eliminate future revenue losses.

Board's Comments

The matter is with the Court for the above issue. All risks including staff embezzlements are covered by our insurance policy. Once the Court process is over, our insurers will be paying FMIB for the loss incurred. The Board is doing all it can to prevent such things to happen in the future.

SECTION 6: PUBLIC RENTAL BOARD

The Public Rental Board (PRB) was established under the Housing (Amendment) Decree No 12 in 1989 to take-over and manages the rental section of the Housing Board on an economic basis. The Housing (Amendment) Decree is the subsidiary legislation of the Housing Act of 1955.

Under section 34 of the Housing (Amendment) Decree No 12 of 1989, the Board is primarily to operate on a non-commercial basis by inviting Government to make good the shortfall by way of subsidy, where the assessed rental applicable to a tenancy represents a disproportionate percentage of earnings.

The main activities of the Board are as follows:

- management of all rental estates inherited from the Housing Board including the repairs and maintenance of buildings, grounds and other common facilities;
- rental of units to low income earning families;
- assessment and collection of rent from its tenants; and
- extension of the rental estate via building projects.

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PART A – FINANCIAL INFORMATION

6.1 Audit Opinion - 2011

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2011 resulted in issue of an unqualified audit report.

6.2 Abridged Statement of Financial Performance

Year ended 31 December	2011 ($)	2010 ($)
Rental Revenue	2,581,457	2,390,500
Operating Income	1,681,421	1,774,164
Interest Revenue	6,555	59,628
Total Operating Income	**4,269,433**	**4,224,292**
Depreciation	380,724	372,857
Staff Costs	969,153	915,077
Other Operating Expenses	2,010,914	1,436,082
Finance Cost	139,699	187,288
Total Expenses	**3,500,490**	**2,911,304**
Net Profit for the Year	**768,943**	**1,312,988**

The Board's net profit decreased by $544,045 or 42% in 2011 compared to 2010 due to increase in expenditures by $589,186 or 21%.

6.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Assets		
Cash	1,365,234	1,076,676
Investments	77,695	75,430
Other Assets	122,421	144,445
Property, Plant & Equipment	6,877,359	7,210,805
Total Assets	**8,442,709**	**8,507,356**
Liabilities		
Creditors	2,361,799	1,973,667
Deferred Revenue	763,120	567,995
Borrowings	1,524,346	2,960,452
Employee Entitlement	209,365	190,105
Total Liabilities	**4,858,630**	**5,692,219**
Net Assets	**3,584,079**	**2,815,137**
Total Equity	**3,584,079**	**2,815,137**

There was a significant improvement in the Board's financial position in 2011. Total equity increased by $768,942 or 28% in 2011. This was due to significant decline in Borrowings by $1,436,106 or 49% in 2011 compared to 2010.

PART B – CONTROL ISSUES

6.4 Annual Salary Not Stated in the Contract Document

General Manager will have the right to determine the salary for each current and future middle management level employees, which need to be approved in writing by PRB Board through salary structure. The salary paid to an employee will depend on the qualification, work knowledge and experience and other merits. Salary structure for occupational level staff would be based on current market norm also through salary structure.[1]

The audit noted that General Manager, Manager Finance and Administration and Manager Property's employment contract only stated the total salary package which included the basic annual gross salary and the fringe benefits payable. The employment contract did not specifically state the annual base salary for these officers.

The audit further noted that the Manager Properties was also paid Vodafone allowance although this was not stated in his employment contract. Refer to table 6.1 below for details.

Table 6.1: Basic Salary Not Stated In the Contract

Position	Salary Package ($)
General Manager	87,822

[1] Public Rental Board Human Resources Policies and Procedures, Section 4.2.2.2

Position	Salary Package ($)
Manager Finance & Administration	63,375
Manager Properties	54,825

As a result, the audit could not determine from the officers' employment contract whether they were paid salaries and other benefits at correct rates.

Recommendations

The Board should:

- **ensure that the annual base salary and the other benefits are clearly stated in the employment contracts; and**
- **cease payment of Vodafone allowance to Manager Properties as he is not entitle to it.**

Management Comments

No comments provided.

6.5 Expired Contracts

At least 3 months prior to the expiry of the Employee's appointment, the Board through the General Manager and the Employee shall confer with the view to reaching an agreement as to whether the employee shall be re-appointed for a further period and, if so, on what terms. Each party shall advise the other no later than one month (or such period as they may agree in writing) prior to the expiry of the Employee's appointment of their decision regarding the matters on a new contract.[2]

The audit noted that the General Manager, Manager Finance and Administration and Manager Property's employment contract ended in 2011 however they were still employed without a valid employment contract. Refer to table 6.2 below for details.

Table 6.2: Officers With Invalid Employment Contracts

Position	Contract Term	Effective Date of Contract	Date Contract Expired	Salary Package ($)
General Manager	3 years	01/08/2008	31/07/2011	87,822
Manager Finance & Administration	3 years	01/01/2009	31/12/2011	63,375
Manager Properties	3 years	01/01/2009	31/12/2011	54,825

In the absence of valid employment contract the Officers' employment with the Board is unauthorised.

Recommendation

The Board should ensure that every employee has valid employment contract.

[2] PRB Contract of Employment, Section 11

Management Comments

No comments provided.

6.6 Payment of Motor Vehicle Allowances

The General Manager, Manager Finance and Administration and Manager Property's were entitled to motor vehicle as part of the employment contract.

However, the audit noted that the managers' were also paid motor vehicle allowances in addition to motor vehicles provided to them. As at the date of audit[3] the three management officers were paid motor vehicle allowance totalling $42,558 despite provided with official vehicles. Refer to the table 6.3 below for details.

Table 6.3: Motor Vehicle Allowance Paid 2009 – 2012

Designation	Motor Vehicle Allowance Paid				Total Amount Paid ($)
	2009 ($)	2010 ($)	2011 ($)	2012 ($)	
General Manager	3,832.14	3,832.14	3,832.14	3,242.58	**14,739.00**
Manager Finance and Administration	3,832.14	3,832.14	3,832.14	3,242.58	**14,739.00**
Manager Properties	3,400.80	3,400.80	3,400.80	2,877.60	**13,080.00**
	11,065.08	**11,065.08**	**11,065.08**	**9,362.76**	**42,558.00**

The audit further noted that the Officers failed to inform about incorrect payment of motor vehicle allowance to them by the Board. As a result these officers were double paid their vehicle allowance.

Recommendations

The Board should:

- **immediately cease payment of motor vehicle allowances to its managers if they are provided with a vehicle.**
- **recover the total amount of motor vehicle allowances paid in addition to the motor vehicle provided.**
- **take appropriate action against managers for not informing the Board for double payment of vehicle allowance.**

Management Comments

No comments provided.

[3] 18/11/12

6.7 Long Outstanding Accruals

Monthly review of creditors balance should be carried out by the accounts payable officer and shall advise the Manager Finance and Administration on the status and progress of any resolution of disputes and unreconciled amounts with the supplier.[4]

Our scrutiny of the accruals revealed that two outstanding balances in the accruals were included in the accruals balance since 2009 and 2005 respectively. Refer to the table 6.4 below for details.

Table 6.4: Long Outstanding Accruals

Accruals	Amount ($)	Outstanding Period
Creditor 1	42,751.02	Almost 7 years
Creditor 2	21,066.00	Almost 3 years

According to the Manager Finance and Administration the two long outstanding accruals were retention funds held by the Board from the contractors. However both the contractors did not come back to the Board for payment of retention money after the completion of retention period.

However the audit further noted that the Board did not make an effort to pay the retention funds after the completion of retention period.

As a result the Board is unnecessarily carrying these liabilities.

Recommendation

The Board should make an effort the pay the outstanding amount to the contractors.

Management Comments

No comments provided.

[4] Public Rental Board Finance Manual Section 10.2.5