EXCELLENCE IN PUBLIC SECTOR AUDITING

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audits of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities & Off-Budget State Entities - June 2013

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OFFICE OF THE AUDITOR GENERAL
Excellence in Public Sector Auditing

6-8TH Floor, Ratu Sukuna House
2-10 McArthur St
P.O.Box 2214, Government Buildings
Suva, Fiji

Telephone: (679) 330 9032
Fax: (679) 330 3812
Email:info@auditorgeneral.gov.fj
Website:http://www.oag.gov.fj

File: 102

5 July 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 Accounts of Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities & Off-Budget State Entities – June 2013

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 entities that were completed as at 30th June 2013.

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

FOREWARD

This report covers the financial audits of the following government entities completed during the 1st half of 2013.

Entity	Year Audited	Audit Report	Operating Result
Airport Fiji Limited	2012	Unqualified	Surplus
Fiji Development Bank	2012	Unqualified	Surplus
Fiji Ports Corporation Limited	2012	Unqualified	Surplus
Fiji Ships & Heavy Industries Limited	2012	Unqualified	Surplus
Housing Authority	2012	Unqualified	Surplus
Ports Terminal Limited	2012	Unqualified	Surplus
Yaqara Pastoral Company	2011	Qualified	Surplus
Fiji Electricity Authority	2012	Unqualified	Surplus

Government entities that submitted their financial statements by 31 May 2013 were audited whilst those received after 31 May will be audited during the 2nd half of 2013. All entities audited recorded surpluses in their operations.

Only the Yaqara Pastoral Company was issued a qualified audit report whilst reports of the other entities were unqualified.

A qualified audit report is issued when the overall financial statements are fairly stated but either the financial data indicated a failure to follow applicable accounting standards or there was a significant uncertainty concerning certain financial data. An unqualified audit report is issued when the financial statements give a true and fair view or are presented fairly in all respects in accordance with the identified reporting framework.

The financial statement of Yaqara Pastoral Company was qualified as it was not practicable to carry out normal audit procedures relating to biological assets valued at $2,967,112 as at 31 December 2011.

The report of each entity has 2 parts. Part A covers the financial information while Part B includes control issues identified during our audit.

The financial information summarizes the financial statements of each entity whilst the control issues represent our audit findings, recommendations and the management comments.

Government Commercial Companies, Commercial Statutory Authorities, Off Budget State Entities & Majority Owned Entities

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1. Airport Fiji Limited
2. Fiji Development Bank
3. Fiji Ports Corporation Limited
4. Fiji Ships & Heavy Industries Limited
5. Housing Authority
6. Post Terminal Limited
7. Yaqara Pastoral Company Limited
8. Fiji Electricity Authority

SECTION 1: AIRPORTS FIJI LIMITED

Airports Fiji Limited (AFL) is a wholly government owned government commercial company. It was established on 12 April 1999 as a result of the re-organisation of Civil Aviation Authority of Fiji (CAAF) into separate commercial and regulatory authorities under the Public Enterprises Act, 1996.

AFL operates 15 public airports in the Fiji Islands. These include two international airports – Nadi and Nausori, and 13 outer island airstrips.

AFL also provides air traffic management (ATM) in the Nadi Flight Information Region (FIR). The Nadi FIR includes the air spaces of Fiji, Tuvalu, New Caledonia, Kiribati, and Vanuatu covering an area of 6.1 million square kilometres. The ATM operation is currently done in-house by AFL staff.

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PART A – FINANCIAL INFORMATION

1.1 Audit Opinion

The audit of the financial statements of the Airports Fiji Limited for the year ended 31 December 2012 resulted in an unqualified Auditor's Report.

1.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2012 $	2011 $
Revenue		
Navigation charges	13,533,437	13,667,461
Airport security/development fee	7,322,203	6,936,256
Concessions	12,698,810	12,832,005
Landing and parking fees	11,862,517	12,177,703
Departure tax share	6,196,238	4,563,412
Other income	11,339,126	10,046,316
Total Revenue	**62,952,331**	**60,223,153**
Expenditure		
Contract costs	3,281,275	3,237,358
Depreciation	12,221,399	11,712,656
Salaries & wages	14,082,001	13,608,577
Utilities	6,172,898	5,927,208

Year Ended 31 December	2012 $	2011 $
Other operating expenses	13,065,552	13,495,659
Total Expenditure	**48,823,125**	**47,981,458**
Profit Before Tax	**14,129,206**	**12,241,695**
Income tax (expense)/ benefit for the year	(2,851,846)	236,431
Net Profit for the Year	**11,277,360**	**12,478,126**

The net profit recorded in 2012 declined by $1.2 million or 10% compared to the previous year. This resulted mainly from the significant income tax expenses accounted for in 2012.

The implementation of fees on domestic departures effective from February 2012 brought in additional revenue, which was a major contributing factor to the increase in total revenue by $2.7 million or 5%.

1.3 Abridged Statement of Financial Position

As at 31 December	2012 ($)	2011 ($)
Assets		
Cash and cash equivalents	24,611,274	20,715,916
Receivables	12,886,289	11,465,158
Other current assets	1,977,827	2,327,453
Deferred tax asset	656,451	564,732
Property, plant and equipment	156,260,952	157,513,476
Total Assets	**196,392,793**	**192,586,735**
Liabilities		
Accounts payable	8,447,457	5,714,710
Other current liabilities	2,871,238	5,228,980
Borrowings	7,571,346	13,965,015
Deferred tax liability	8,110,812	8,735,765
Other non-current liabilities	14,864,725	15,840,430
Total Liabilities	**41,865,578**	**49,484,900**
Net Assets	**154,527,215**	**143,101,835**
Equity		
Share capital	92,300,180	92,300,180
Retained earnings	58,220,876	47,943,516
Capital contribution	4,006,159	2,858,139
Total Equity	**154,527,215**	**143,101,835**

Net assets increased by $11,425,380 or 8% in 2012 compared to 2011 as the result of the following:

- Significant increase in Cash and cash equivalent balance by $3,895,358 or 19% due to increase in cash at bank balance during the year. The increase was mainly attributed to increase in revenue generated from airports operations such as introduction of domestic passenger service charge and increases in international passenger arrivals.
- Significant decrease in borrowings by $6,393,669 or 46% due to timely repayment and refinancing of loans at a reduced interest rate.
- Significant decrease in other current liabilities by $2,357,742 or 45% due to substantial reduction in income tax payable.

SECTION 2: FIJI DEVELOPMENT BANK

The Fiji Development Bank is an autonomous statutory body that was established on 1st July 1967 to provide finance for projects that contribute to the development of Fiji's economy as well as improving the quality of life of its people. The Bank's operations are controlled by a Board of Directors appointed by the Minister of Finance.

Until recently, the Fiji Development Bank depended on Government to finance its operations. Apart from guaranteeing lines of credit for the Bank, Government also provided annual capital grants until the mid-nineties. Although capital grants have been infrequent since, Government continues to support development projects/plans and special assistance programs administered by the Bank vide interest subsidies and guarantees annually. The Bank has now diversified its portfolio to include commercial products and services which also assist in sustaining the Bank's core business of financing higher risk development projects.

The Fiji Development Bank's function is to facilitate and stimulate the promotion and development of natural resources, transportation, and other industries and enterprises in Fiji, and in the discharge of these functions the Bank gives special consideration and priority to the economic development of the rural and agricultural sectors of the economy of Fiji.

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PART A – FINANCIAL INFORMATION

2.1 Audit Opinion 2012

The audit of the consolidated financial statements of the Fiji Development Bank and its subsidiary company for the year ended 30 June 2012 resulted in the issue of an unqualified audit report.

2.2 Abridged Statement of Comprehensive Income

For the year ended 30 June	Consolidated		The Bank	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Income				
Interest from Loans	28,405,155	34,728,532	28,404,296	34,727,731
Fees	3,343,815	4,947,203	3,343,815	4,947,203

For the year ended 30 June	Consolidated		The Bank	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Other Income	7,096,828	7,081,974	6,946,827	7,081,974
Total Income	**38,845,798**	**46,757,709**	**38,694,938**	**46,756,908**
Expenses				
Interest and other borrowings expenses	10,953,789	16,897,803	10,953,789	16,897,803
Operating expenses	3,988,830	3,828,813	3,910,293	3,825,428
Employee costs	6,748,969	6,670,530	6,748,969	6,670,530
Total Expenses	**21,691,588**	**27,397,146**	**21,613,051**	**27,393,761**
Operating profit before provisions	17,154,210	19,360,563	17,081,887	19,363,147
Allowances for credit impairment	13,764,656	16,858,563	13,764,656	16,858,563
Allowances for impairment - Grant	459,645	---	459,645	---
Diminution in investments				
Operating profit before income tax expense	**2,929,909**	**2,502,000**	**2,857,586**	**2,504,584**
Income tax expense	16,017	---	---	---
Operating profit after income tax	**2,913,892**	**2,502,000**	**2,857,586**	**2,504,584**

The Bank's consolidated operating profit increased to $2,913,892 in 2012 compared to $2,502,000 in 2011. This was the result of the decrease in total expenditure by $5,705,558 or 21%. Interest and other borrowing expenses decreased significantly by $5,944,014 or 35%.

Total income decreased by $7,911,911 or 17% during 2012 compared to 2011 being attributed to decrease in interest income by $6,323,377 or 18%.

2.3 Abridged Statement of Financial Position

For the year ended 30 June	Consolidated		The Bank	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Assets				
Cash	55,665,433	44,776,489	55,621,755	44,732,724
Loans and advances	258,662,029	272,141,459	258,662,029	272,141,459
Investments	50,251	50,251	70,251	70,251
Non-current asset held for sale	---	9,040,639	---	9,040,639
Land held for resale	736,918	675,822	736,918	675,822
Property, plant and equipment	14,723,752	14,805,809	14,723,752	14,805,809
Intangibles	56,668	45,218	56,668	45,218
Other debtors	2,854,651	3,585,165	2,679,605	3,582,037
Receivable due from subsidiary	---	---	74,695	---
Total Assets	**332,749,702**	**345,120,852**	**332,625,673**	**345,093,959**
Liabilities				
Bonds - Held-to-maturity	109,891,798	163,385,062	109,891,798	163,385,062
Short term borrowings	93,986,026	55,830,053	93,986,026	55,830,053
Employee entitlements	1,829,655	1,836,175	1,829,655	1,836,175

For the year ended 30 June	Consolidated		The Bank	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Deferred income	1,592,444	1,792,623	1,592,444	1,792,623
Accounts payable and accruals	3,842,568	3,875,477	3,790,346	3,864,085
Other liabilities	5,450,368	5,158,511	5,450,368	5,158,511
Total Liabilities	**216,592,859**	**231,877,901**	**216,540,637**	**231,866,509**
Net Assets	**116,156,843**	**113,242,951**	**116,085,036**	**113,227,450**
Equity				
Capital	56,050,636	56,050,636	56,050,636	56,050,636
Reserves	11,187,562	11,187,562	11,187,562	11,187,562
Accumulated profits	48,918,645	46,004,753	48,846,838	45,989,252
Total Equity	**116,156,843**	**113,242,951**	**116,085,036**	**113,227,450**

Net Assets increased by $2,913,892 or 3% in 2012 compared to 2011. This was attributed to the increase in cash at bank by $10,888,944 or 24% in 2012.

Outstanding loans and advances declined by $13,479,430 or 5% and the bank also disposed off all non-current assets held for sale (repossessed entities) in 2012.

PART B – CONTROL ISSUES

2.4 Loans and Advances

The audit noted several internal control deficiencies within the loans and advances cycle. These are recurring issues and have been reported in prior year audits.

The loan cycle consists of:

- Prequalification process;
- Appraisal, approval and disbursement process; and
- Monitoring and supervision.

2.4.1 Appraisal, approval and disbursement

The following deficiencies were noted in the appraisal, approval and disbursement process:

- *161117 -* : The bank statements to evaluate the cash flow position of the customer were not obtained; customer identification checklist, photo identification; and a complete customer quality rating (CQR) worksheet were missing from the file. Application fee charged was $100 however the fees and charges schedule shows $200;
- *161116 - :* application fee charged was $50 when the fees and charges schedule showed $200;
- *401539 - :* $150 application fee was charged however the fees and charges schedule showed $200. The file showed an amended security margin of 30% whereas the system still showed a safe realisable value (SRV) based on the old margin of 70%. As a result,

the loan portfolio showed an overvalue of SRV with the revised SRV was $25,500 while the system showed $105,000. Audit noted that the Bank Management System (BMS) details were incorrect as the file showed a credit risk rating (CRR) of 6 while the system showed 3.

- *21271 :* Audit noted that there was no photo identification on the file; the loan application form was missing and the site/physical security inspection report nor were there any valuation report for property CT 10594 and CT10595 which were held as security were not filed;
- *21303* - It was noted that the BMS details are incorrect and not updated as at 30 June 2012 due to the determination of the customer quality rating (CQR) and credit risk rating (CRR) as D/3 while in the loan portfolio CQR and CRR was determined as E/1.
- *31305* - there were no physical site/security inspection report in loan file;
- *31306* - It was noted that there were no loan application form in file, no company certificate of incorporation, Memorandum of Association (MOA) & Articles of Association (AOA) in file and there was no security physical inspection report;
- *151025* - Audit noted from the file that there was a variance in approved loan amount as per offer letter of $3.3m compared to $6,599,995 as per loan portfolio. Additionally, past three years 'audited" financials were not filed as required with only the unaudited financials filed; and
- *31310* - There were no recent valuation done and report used is of 2009. Upon audit query, the 2010 property valuations were then obtained. Furthermore, a loan of $3.9m was provided without any tangible security taken or equity contribution but an undertaking by the Board of Directors that the loan will be paid within 6 months.

2.4.2 Monitoring and supervision

The following issues were noted in the monitoring and supervision process:

- *113891* -There was no evidence sighted in the file for the increase in CRR from "3" as at 3/04/2012 to "4" as at 30 June 2012;
- *114584* - Missing from the file are evidence of annual review carried out. There was a correspondence dated 9/03/12 to await the 2011 Financial Statement to conduct review, however there were no evidence that this has been receipted;
- *116273* - There were no evidence in the file of annual review being done;
- *114984* - Audit noted that there was no evidence of steps to take to recover arrears;
- *138287* - The last review was done in Nov 2011. Audit noted that the credit risk rating was "4", and there were no justification documented as to why the year end grading being "5";
- *16930* - The last account review done in July 2011 without any evidence of any recent review;

- *115040* - The last review of the account was done in August 2011. Additionally, there were no evidence of a review of the 2011 audited accounts and no action has been made by the bank to clear the arrears noted at year end;
- *115541* – The last review filed was done in August 2011 and there are no evidence of annual review being done;
- *116315* – There were no evidence in the file to suggest that a review was done in 2012;
- *114812* - The last review was done in November 2010 and there are no further review noted in file;
- *116090* - The last review was done in June 2011 and there are no further review noted in file;
- *224* - The account was last reviewed in April 2010 and there are no further review noted in file;
- *153125* - Audit review of the correspondence dated 15/02/12 noted that the bank is currently awaiting the clients financial for year ending 2011 for the annual review. There are no evidence to suggest the information was received from client and whether the annual review has been done;
- *16919* - Following the last review done in May 2012, it was noted that the credit risk rating (CRR) was "8", and there were no justification documented on why the year end grading is "9";
- *19467* - Following the last review done in June 2012, it was noted that the CRR was "3" and there were no justification documented why the year end grading is "5". In addition, the review noted the account is satisfactory but audit noted that some information requested by the bank remain outstanding.
  These includes: Audited financials for financial year 2007 to 2011; Updated Valuation report on CL 12757 (Suvavou House), VAT/Tax statements from FRCA, City rates statements from Suva City Council, Land rental statements from Lands Department, and there were no evidence to suggest the information has been received from the client and how the overall grading of the loan account will be affected by the lack of information.
- *114041* - The loan account is currently classified as Troubled Impaired Assets (TIA) and fees has been suspended. There was no correspondence in 2012 on how the debt will be recovered.

Non-adherence to approved policies and procedures increases the risk of financial losses to the Bank.

<u>Recommendation</u>

It is recommended that the Bank should ensure that lending policies and procedures are strictly enforced.

Management Comments

- *161117 - (1) Bank Statements for A/C 9803165134 was provided and is available in the file. (2) Customer Identification Checklist available in our branch file (3) Customer's Fiji Driver License No. 702708 was provided and copy is available in the file. (4) CQR worksheet has been printed and now available in the file. (5) The balance of application fee of $100 has been journalized vide Jnl Ref: 161117 on 10.12.2012.*
- *161116 - Balance of application fees of $150 has been journalized vide Jnl Ref.161116 on 10.12.2012.*
- *21271 - Copy of passport was obtained on 15/10/2012 and is in the file. Application was received via email correspondence dated 30/08/2011 which was considered satisfactory to complete the loan application. Valuation for CT No. 17849 was provided however the other two were based on the purchase price (loan at commercial bank). Bank took second mortgage over the properties and no value were extended to the same as 1st priority holder was commercial bank) Client has sold CT No. 17849 and $50k was paid on 18/05/12 to the Bank after paying commercial the major share and reducing clients debt by 46% to $53k.*
- *21303 - Initial proposal submitted was for a grading D/3 however BRS approved a grading of E/4 on the 13th of March 2012. CRR on account was amended on 30/07/2012 to E/4.*
- *31305 - A physical inspection was not undertaken because of project location in Vanua Levu and secondly the project is well known to the Bank. . However, on 12/09/12 we wrote to the company to furnish us with a fresh valuation report and the same is yet to be submitted. Follow ups are maintained and an on -site inspection would be undertaken for file records when the project site is visited next. A response letter dated 8/10/2012 was received by the bank stating that the company are finalizing their audited financials with valuation undertaken which will be forwarded to us in due course. Close follow up will be maintained henceforth.*
- *31306 - Loan application has been executed and is now in the file. Certificate of Incorporation is in the file. Previously only important pages of MOA and AOA extracted from Companies Office were on file. Now we have obtained full set of documents from client and is in file. Professional valuation report dated 2/6/12 from a prominent valuer in file.*
- *151025 -There was error in keying in BMS; same has been rectified on 27/07/2012. We have unaudited financial statement for 3 years.*
- *31310 - The Bank used the 2009 valuations due to the fact that all valuations provided by our panel of valuers are valid for 5 years for mortgage purposes. There was no equity contribution on the $3.9M loan as the Bank has considered the proposal on rehabilitation basis to protect a major focused sector player that has the potential to turn around with wider impact on our economy.*

There were no tangible securities taken since the facility was for short term (6 months) with confidence and assurance from the company in settling the debt from their proposed cash flow.

At the time of the loan approval, FDL was in the transition phase, assets and liabilities of the RCDCL were being transferred to FDL by solicitors/consultant/Executive Director trying to finalize the hand over and sale transactions to comply with Governments deadline.

The loan approval was also crucial to rescue the company from impending winding up by Fonterra.

- *113891 - CRR of 3 is correct and grading to "4" was post 2012 Provision Exercise in April 2012 by Credit Risk, Policy & Approvals verified through Maintenance Log [by File] transacted on 2.4.2012 'Username reading as "SYSTEM'.*
- *114584 - 2011 financial statement was hand delivered by the company and is attached in the file. Review was undertaken in the form of appraisal for further loan of $800,000.00 processed on 28/09/2012. A full analysis of the financials was undertaken therein.*

- *116273 - Yes we agreed. This has been waived for we consider it sufficient that the Credit Assessment Report (CRAM) had also served this purpose. This CRAM was compiled based on Dec-10 Audited Accounts in conjunction with CRAM dated 13/04/11 for loan of $1.04m for acquisition of Ginger Factory & considered as review submission as well. This has been recorded in BMS in April 2011 under review details. Dec 2011 Audited Accounts are now available and will review in August 2012.*
- *114984 - Company's cash flow constraints as a result of low occupancy being the primary reason for arrears. Proposition of debt restructure has been deliberated as per BMS Diary Note seq. 14 and requires submission of all necessary information for review of account which was put forward to company on email dated 29/06/12. Monthly follow up being maintained to regularize the account.*
- *138287 - CRR change from '4" to "5" was Approved by BRS during provision exercise as under the CQR/CRR template, a loan grade of 'E' with a 97% SVLR gives a CRR of '5'.*
- *16930 - Reviews for all the 4 accounts are up to date and the last review done was on 26/07/2012.*
- *115040 - A mandatory review was undertaken in July 2012 in which we have highlighted that the company is yet to furnish the bank with their 2010 and 2011 financials. A letter was written to them on 6th of August requesting the company for their 2010 and 2011 financials to enable us undertake a full review of the company's performance. The company was also requested to remit the arrears and dues of $395k and furnish the bank with their action plan as soon as possible. Two more reminders were sent on 19/11/12 and 6/12/12 to provide audited financials and update arrears.*
- *115541 - Consolidation - Last review based on Dec 2010 Audited Financials. The delay by the company to provide Audited accounts is the reason for the delay in carrying out the review. The audited Financials for 2011 has now been received and account review completed.*
- *116315 - Credit Assessment based on Jun 09, Jun 10 & Jun 12 Accounts was completed with conjunction with CRAM for further loan of $1.76m dated Jun 2012. We consider this CRAM to be sufficient and also served as Review of Account given the depth and comprehensive of what is covered under CRAM.*
- *114812 - Company's Financials for Dec-10 and Dec-11 received in November 2012 and review is now being compiled.*
- *116090 – Agreed. What we experienced this year was rather abnormal for the company to delay submission of its Financials to the bank. This was eventually submitted in late October 2012 and the Review of account is being undertaken and should be ready by 14/12/12.*
- *224 - Business Financials of the company for 2011 has just been submitted to the Branch on 7/12/2012 together with the valuations of the property where the necessary reviews will be completed. Branch has not been able to do a proper review because of the absence of the required documents. Nonetheless, company record is excellent for it continues to record a paid in advance status on the account. We should expect the review of the account to be completed by the end of the month Dec 2012.*
- *153125 - Discussed with client on 27/07/2012. Last week he has provided few outstanding particulars to accountant to complete the financial accounts. Follow-up is maintained and once account is on hand review will be undertaken.*
- *16919 - CRR status was automatically downgraded to "9" based on the computerized matrix. This is understandable as full recovery of the loan is remote and should be reflected under grading "9".*
- *19467 - CRR of 3 is correct and grading to "5" was post 2012 Provision Exercise in April 2012 by Business Risk Team has the discretion to downgrade the account if it deems necessary given the overall performance of the account and both endogenous and exogenous factors of*

business environment. Normal follow up has been maintained with company for submission of the Financials and valuations report as per letters held on file. Payment of city rates and land rental are now up to date and incorporated into repayments.

- *114041 - Certain Deed was signed by the Developer, the Government and the Bank at loan origination stage whereby the Government will settle the full debt upon completion of the capital works by the Project Contractor. The developer Matapo Limited and the contractor was V&B. The Certification of the completion of the work was issued by the site engineers in November 2006. There is a delay by government in paying due to the Momi Bay decree No 28/2010 on 08/06/2010 which terminated all court proceedings, appeals and judgments relating to Momi Bay Project. However, ongoing discussions with government and FNPF have revealed that construction work on the Resort will re-start in the second quarter of 2013 and the bank is hopeful of the payment as per the Deeds upon completion.*

SECTION 3: FIJI PORTS CORPORATION LIMITED

The Fiji Ports Corporations Limited was incorporated in 2004 to take over the operations of the Maritime Ports Authority of Fiji. The principal activities of the Corporation are providing and managing the port infrastructure and services within declared ports.

The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, Sea Ports Management Act and the Public Enterprises Act.

The company has two subsidiaries trading as Ports Terminal Ltd and Fiji Ships & Heavy Industries Ltd. The company took over the operation of Fiji Ships & Heavy Industries Ltd in June 2009.

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PART A – FINANCIAL INFORMATION

3.1 Audit Opinion

The audit of the financial statements of the Fiji Ports Corporation Limited and its subsidiaries for the year ended 31 December 2012 resulted in the issue of an unqualified audit report.

3.2 Abridged Statement of Financial Performance

As at 31 December	Group		Company	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Income				
Marine Services	8,759,574	9,477,314	8,759,574	9,477,314
Dockage	5,992,933	5,881,153	5,992,933	5,881,153
Wharfage	5,822,217	5,429,349	5,822,217	5,429,349
Storage	4,418,896	3,833,716	4,418,896	3,833,716
Other Operating Revenue	22,506,941	21,218,229	4,241,296	5,540,757

As at 31 December	Group		Company	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Other Revenue	2,724,362	2,366,908	4,253,822	3,052,219
Total Income	**50,224,923**	**48,206,669**	**33,488,738**	**33,214,508**
Expenditure				
Operating Expenses	9,317,767	8,456,930	2,935,885	2,913,998
Salaries and Benefits	10,032,549	9,387,339	4,419,717	4,370,514
Property Expenses	3,994,708	3,958,207	3,994,708	3,958,207
Depreciation	10,462,869	10,453,034	8,312,746	8,145,309
Marine Service Charge	5,846,926	6,212,202	5,846,926	6,212,202
Finance Expenses	1,437,206	1,792,069	1,400,726	1,726,366
Total Expenditure	**41,092,025**	**40,259,781**	**26,910,708**	**27,326,596**
Operating (loss)/profit before income tax	**9,132,898**	**7,946,888**	**6,578,030**	**5,887,912**
Income tax (expense)/ credit	(1,823,144)	(2,304,685)	(1,179,166)	(2,143,017)
Net (loss)/ Profit for the year after Income Tax	**7,309,754**	**5,642,203**	**5,398,864**	**3,744,895**

The company and subsidiaries recorded net profit after tax of $7,309,754 an increase of $1,667,551 (30%) compared to 2011. The increase was mainly attributed to the improvement in operating revenue collection by $2,018,254 (4%) and the reduction in the legislative income tax rate of 28% (2011) to 20% (2012).

The company paid a dividend of $2,831,101 in 2012 compared to $2,641,643 in 2011.

3.3 Abridged Statement of Financial Position

As at 31 December	Group		Company	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Current Assets				
Cash and cash equivalents	18,260,838	20,085,938	9,087,108	13,863,558
Trade and other receivables	3,302,980	3,501,779	1,924,941	2,294,112
Investments	3,000,000	6,000,000	2,750,000	5,750,000
Inventories	294,931	349,132	75,883	100,738
Other current assets	1,362,782	935,140	775,059	622,798
Loan to Subsidiaries	---	---	430,865	413,998
Income Tax Asset	198,743		211,227	
Total Current Assets	**26,420,274**	**30,871,989**	**15,255,083**	**23,045,204**
Non – Current Assets				
Property, plant and equipment	112,649,864	122,721,554	99,005,019	107,288,536
Financial Assets	58,330	1,058,330	---	1,000,000
Intangible asset	226,143	161,133	217,373	151,029
Investment property	4,311,660	3,337,283	4,311,660	3,337,283
Loan to subsidiaries	---	---	4,697,141	5,128,009

As at 31 December	Group		Company	
	2012 ($)	2011 ($)	2012 ($)	2011 ($)
Investment in FSHIL	---	---	6,660,000	6,660,000
Deferred tax assets	1,547,418	923,468	2,157,217	1,398,591
Total Non–Current Assets	**118,793,415**	**128,201,768**	**117,048,410**	**124,963,448**
Total Assets	**145,213,689**	**159,073,757**	**132,303,493**	**148,008,652**
Current Liabilities				
Trade Payables and Accruals	4,699,506	4,979,776	2,719,302	3,079,424
Interest Bearing Borrowings	3,493,086	2,647,045	3,319,344	2,473,303
Provisions	957,782	905,154	747,197	736,009
Income tax liability	---	2,615,565	---	2,615,565
Total Current Liabilities	**9,150,374**	**11,147,540**	**6,785,843**	**8,904,301**
Non-Current Liabilities				
Interest bearing borrowings	36,485,110	52,836,665	36,192,137	52,356,601
Total Non-Current Liabilities	**36,485,110**	**52,836,665**	**36,192,137**	**52,356,601**
Total Liabilities	**45,635,484**	**63,984,205**	**42,977,980**	**61,260,902**
Net Assets	**99,578,205**	**95,089,552**	**89,325,513**	**86,747,750**
Shareholder's Equity				
Share Capital	73,154,852	73,154,852	73,154,852	73,154,852
Accumulated Profits	26,423,353	21,934,700	16,170,661	13,592,898
Total Shareholder's Equity	**99,578,205**	**95,089,552**	**89,325,513**	**86,747,750**

The net assets of the company and its subsidiaries improved by $4,488,653 (5%) in 2012 compared to 2011. This was due to the decreases in liabilities by $18,348,721 (29%) in 2012.

PART B – CONTROL ISSUES

3.4 Manual Sales System

The audit noted that manual invoices were issued for sales and each Port was given different set of sales invoices.

Large companies should have automated receipting's to avoid fraud and error.

<u>**Recommendation**</u>

The Management should perform a cost-benefit analysis for the Company to purchase and install a fully automated Ports Management System.

Company's Comments

We note the comments. Management has included this as a key objective in its Strategic Plan to fully automate the Invoicing function via fully integrated operations software. However, given that this is a major task, proper project planning is required and target date of 2014 is being considered.

3.5 Reimbursement cost to Fiji Military Forces

The Company owes $195,841 reimbursement costs to Fiji Military Forces for the security services provided in year 2007.

In the absence of supporting documents for payments, the company has not been able to process the payment.

The lack of information increases the risk that the amount due may be incorrectly stated.

Recommendation

The Management should liaise with the Fiji Military Forces to resolve the issue to ensure that the reimbursement cost is settled.

Company's Comments

Management being fully aware of this issue and its implications and has done all it could to clear off this long outstanding item. Various correspondences have been made with Fiji Military Forces but the issue remains unsolved. This has also been escalated to the Fiji Ports Board to follow up with the Fiji Military Forces.

3.6 Excessive Leave Days

The company policy states that "annual leave balances of more than 10 days cannot be carried to the following year".

The audit noted the following staffs had more than 10 days annual leave balances carried forward to the following leave year. Refer Table 3.1 for examples.

TABLE 3.1: OUTSTANDING LEAVE

Employee No.	Days
1135	40.50
1143	32.50
1703	44.50
Total	**117.5**

Accumulation of leave balances exposes the Company to incurring outstanding leave expenses at higher rates of pay.

Recommendation

The Management should ensure that staff take leave on a timely basis to reduce future higher liabilities.

Company's Comments

We note the comments. We are currently implementing policies to bring this into compliance by encouraging staff with high outstanding annual leave to utilize their annual leave entitlements.

3.7 Stock cards

The audit noted that stock cards were not updated for the year. Inventories recorded for the company totalled $75,883.

Lack of proper perpetual inventory recording increases the risk of fraud and error and can also result in material misstatement in financial statements.

Recommendation

The Management should ensure that Storeman properly updates the stock cards for all stock movements. The Stock Controller should also monitor the work performed by the Storeman.

Company's Comments

Comments are noted. Management has implemented revised inventory procedures and is currently in the process of implementing the Inventory Module as part of its Accounting Software Package. In addition, stringent compliance testing is currently done to ensure adherence to this.

3.8 Tender Deposit

The company policy states that "tender deposits needs to be refunded to unsuccessful bidders".

The audit noted that tender deposits totalling $55,654 has not been refunded to unsuccessful bidders.

In addition, the Company does not have record of bidders the deposits are owed to. These deposits relates to the years from 2005 to 2010.

Tender deposits are monies that do not belong to the Company and is in breach of the tender procedures.

Recommendations

- **The Management should ensure that tender deposits are refunded on a timely basis once the tender process has been completed.**
- **In the absence of claim made by the bidders to refund the tender deposit, Management should consider the appropriate treatment of such deposits.**

Company's Comments

Management noted the comments. Majority of the non refunded customer tender deposits relates to prior 2005, under the umbrella of the old Maritime ad Ports Authority of Fiji. No records exist for these nor are customers seeking a refund. Management is also reviewing the tender deposits closely on a regular basis and will ensure timely refunds to unsuccessful customers.

3.9 Size of Board and key Management Personnel

The Board is currently at its minimal number with only two active members (the Chairman and a Director) after the resignation of a Director on 24 December 2012. In addition, the Board has a shortage of mixed of skills, expertise and experience to help to ensure high performance and decision making.

In addition, key management personnel positions are vacant, namely, General Manager Finance, General Manager Corporate Service and General Manager Technical.

The lack of Directors and key Management personnel may hinder the progress of the company as there maybe shortage of expert knowledge for stewardship functions.

Recommendations

- **The Management in consultation with the Ministry of Public Enterprise should ensure that the Board members appropriate to the size of the company and the skills required are appointed.**
- **The senior vacant positions should be filled at the earliest date possible.**

Company's Comments

Management notes the comments and has escalated this to the Ministry of Public Enterprise to address.

SECTION 4: FIJI SHIPS & HEAVY INDUSTRIES LIMITED

Fiji Ships & Heavy Industries Limited (FSHIL) was registered under the 1983 Companies Act as a Private Company Limited by Shares.

The company commenced operation in May 2001 under the name of Fiji Shipbuilding Corporation Limited. Its incorporation was the result of the government's acquisition of the assets of the former company, Shipbuilding (Fiji) Limited, which has been in receivership since December 1999. With effect from January 2003, the company name has been changed to Fiji Ships and Heavy Industries Limited. The mandate as stipulated in the Memorandum of Association states the following objectives:

- to develop the shipyard and slipway that was acquired by Government;
- to carry on the business of slipway operators including ship repair and maintenance, heavy and civil engineering construction and the building of new vessels for the local and international markets;
- to provide a viable commercial facility to achieve a minimum 10% annual return on the shareholders' investments over the planning period
- to provide maximum employment opportunities in the ship repair/ship building industry and the civil and heavy engineering construction industry.

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PART A – FINANCIAL INFORMATION

4.1 Audit Opinion

The audit of the financial statements of the Fiji Ships and Heavy Industries Limited for the year ended 31 December 2012 resulted in the issue of an unqualified audit report.

4.2 Abridged Statement of Financial Performance

Year Ended 31 December	2012 ($)	2011 ($)
Income		
Operating Income	4,905,788	4,388,866
Other Operating Income	169,161	231,755

Year Ended 31 December	2012 ($)	2011 ($)
Total Income	**5,074,949**	**4,620,621**
Expenditure		
Direct Costs	1,224,787	1,128,801
Employee Benefits Expenses	1,408,081	1,174,632
Depreciation and Amortization Expense	367,522	425,868
Finance Costs	108,691	112,998
Other operating expense	917,342	995,607
Total Expenditure	**4,026,423**	**3,837,906**
Operating (loss)/profit before income tax	**1,048,526**	**782,715**
Income tax (expense)/ credit	(82,528)	(32,096)
Net (loss)/ Profit for the year after Income Tax	**965,998**	**750,619**

Slipway and shipyard revenue increased by $454,328 (10%) in 2012. This contributed to the increased net profit of $956,998 in 2012 compared to $750,619 in 2011.

The Company declared and paid a dividend of $375,310 in 2012 compared to $129,213 in 2011.

4.3 Abridged Statement of Financial Position

As at 31 December	2012 ($)	2011 ($)
Current Assets		
Cash and Cash Equivalent	2,802,458	2,336,940
Trade Receivables	469,882	492,599
Inventories	79,481	73,488
Prepayments and other assets	98,009	108,467
Tax Receivable	27,362	---
Total Current Assets	**3,477,192**	**3,011,494**
Non - Current Assets		
Property, Plant and Equipment	6,007,848	6,083,865
Deferred Tax Assets	32,119	75,267
Intangible Assets	8,770	10,104
Held to Maturity Financial Assets	58,330	58,330
Total Non –Current Assets	**6,107,067**	**6,227,566**
Total Assets	**9,584,259**	**9,239,060**
Current Liabilities		
Trade Payables and Accruals	616,118	588,096
Interest Bearing Debt	272,172	268,319
Provisions	66,796	58,640

As at 31 December	2012 ($)	2011 ($)
Total Current Liabilities	**955,086**	**915,055**
Non-Current Liabilities		
Interest Bearing Debt	1,948,278	2,233,798
Total Non-Current Liabilities	**1,948,278**	**2,233,798**
Total Liabilities	**2,903,364**	**3,148,853**
Net Assets	**6,680,895**	**6,090,207**
Equity		
Share Capital	7,662,228	7,662,228
Accumulated Losses	(981,333)	(1,572,021)
Total Equity	**6,680,895**	**6,090,207**

Net assets increased by $590,688 (10%) in 2012 compared to 2011. This was due to increase in cash and cash equivalents by $465,518 (20%).

PART B – CONTROL ISSUES

4.4 Unverified Fixed assets

The audit noted the following anomalies in the records maintained for fixed assets:

- The Fixed Asset Register (FAR) has not been updated for the items that were not physically verified during the Board of Survey;
- The description in the FAR is vague – it does not provide descriptive statement on the type of building and the associated cost of the building; and
- The merger of the FSHIL failed to put proper procedures for setting the FAR making it difficult to identify which building or asset it belong to.

Un-reconciled items in the FAR physically limit the ability to ascertain assets at balance date. Also, absence of physical items overstates assets held in the financial statements.

Recommendation

The Management with the approval of the Board should ensure that thorough physical verification of property, plant and equipment is carried out and the FAR updated accordingly.

Company’s Comments

Management takes note of the DAM report comments.

However, it should be noted that the listings as per the FAR is prior to the current management takeover and relates back to 2001, when Fiji Shipbuilding was bailed out from receivership and Fiji Ships & Heavy Industries was incorporated.

Management will seek board's approval and conduct a thorough Board of Survey to ascertain the physical presence of the Fixed Assets as per the FAR and update accordingly.

4.5 Variance in Tax and Accounts fixed asset register

A variance of $135,868 was noted between the tax fixed asset register and the accounting fixed asset register. Refer Table 4.1 below for details:

TABLE 4.1: VARIANCE IN ACCOUNTING AND TAX FAR

Description	Amount ($)
Accounting FAR	11,686,310
Tax FAR	11,822,178
Variance	**135,868**

Incorrect property, plant and equipment cost used in the tax calculation increases the risk of incorrect tax calculation.

Recommendation

The Head of Finance should ensure that the tax asset register is reconciled before the lodgement of company income tax return with Fiji Revenue Customs Authority for the financial year ended 31 December 2012.

Company's Comments

Management will carry out a reconciliation to rectify the difference in the FAR for taxation before the annual returns are lodged for 2012. It should be noted that these differences are carried forward prior to 2006 and lack of supporting documentations are hindering the reconciliation and rectification process.

4.6 Board Members

The Board is currently at its minimal number with only two active members (the Chairman and a Director) after the resignation of a Director on 24 December 2012. In addition, the Board has a shortage of mixed of skills, expertise and experience to ensure high performance and decision making.

The lack of directors may hinder the progress of the company as there will be shortage of expert knowledge for stewardship functions.

Recommendation

The Management in consultation with the Ministry of Public Enterprise should ensure that the Board members appropriate to the size of the company and the skills required are appointed.

Company's Comments

Management takes note of the DAM report comments. However the appointment of directors is at the discretion of Ministry of Public Enterprises.

SECTION 5: 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

5.1 Audit Opinion

The audit of the financial statements of the Housing Authority of Fiji for the year ended 31 December 2012 resulted in issue of an unqualified audit report.

5.2 Abridged Statement of Financial Performance

Year Ended 31 December	2012 ($000)	2011 ($000)
Income		
Interest Income	10,363	9,936
Interest Expense	(5,778)	(6,588)
Net Interest Income	**4,585**	**3,348**
Other Operating Income	6,580	6,478
Total Revenue	**11,165**	**9,826**
Recurrent Expenditure		
Staff Costs	4,703	4,546
Bad & Doubtful Debts	967	239
Depreciation and Amortisation	1,063	947
Cost of Sales	721	718
Other Operating Expenses	3,270	2,987
Total Expenditure	**10,724**	**9,437**
Net Profit for the Year After Tax	**441**	**389**
Other Comprehensive Income		
Revaluation of property, plant and equipment	0	1,380
Reversal of previous revaluation	0	(5,837)
Total Comprehensive Income for the year after Tax	**441**	**(4,068)**

The Authority recorded net profit after tax of $441,000 in 2012 compared to $389,000 in 2011, an increase of $52,000 (13%). This was due to an increase in interest income by $427,000 (4.3%) and decrease in interest expense by $810,000 (12.3%).

5.3 Abridged Statement of Financial Position

As at 31 December	2012 ($000)	2011 ($000)
Assets		
Cash & Cash Equivalents	25,010	18,646
Loans and Advances	98,510	109,694
Inventories	32,277	20,059
Land held for future development	2,498	786
Property, Plant & Equipment	9,621	9,673
Other Assets	5,000	9,139

As at 31 December	2012 ($000)	2011 ($000)
Total Assets	**172,916**	**167,997**
Liabilities		
Borrowings	105,685	98,059
Trade and other Payables	13,867	16,334
Provisions	443	1,124
Total Liabilities	**119,995**	**115,517**
Net Assets	**52,921**	**52,480**
Accumulated Funds		
Capital	41,772	41,772
Government Grant	15,958	15,958
Asset Revaluation Reserve	2,377	2,377
Accumulated Losses	(7,186)	(7,627)
Total Accumulated Funds	**52,921**	**52,480**

Net assets increased by $441,000 (0.8%) in 2012 compared to 2011 as a result of increase in Cash and Cash Equivalents by $6,364,000 (34%) and increase in Inventories by $12,218,000 (60.9%). This is despite an increase in Borrowings by $7,626,000 or 7.8% in 2012.

PART B – CONTROL ISSUES

5.4 Provision for Doubtful Debts

The Authority recorded provision for doubtful debts of $5.9m (2011: $10.6m) after a full assessment of its loan portfolio. The Authority's policy on doubtful debts is based on Reserve Bank of Fiji (RBF) guidelines. Audit had re-assessed the provision made in accordance with the Authority's policy. In performing our re-assessment, audit conclude that the Authority's provision for doubtful debts has not been made in accordance with its own policy for village schemes (accounts with loan grade E) and consequently understated.

For some village scheme debtors (with loan grade E), a provision was made for only 50% for the shortfall between the recoverable amount (loan – interest & fees suspended) and security value (net exposure). Security value used in this instance is 50%.

In conformance with RBF guidelines, the Authority's policy is to provide for 100% for the net exposure for loan accounts graded 'E'.

Management indicated that a provision of 100% has been made on village scheme accounts graded E for which no repayment was received. The Authority has an assignment over lease monies payable to some of these village schemes from the i-Taukei Land Trust Board.

As the Lendsphere calculates the grading on a monthly basis, the accounts are automatically graded 'E' even though payments are made at irregular intervals or at intervals greater than 1 month.

Incorrect calculation of provision for doubtful debts would result in understatement of expenses and overstatement of assets. Further, provision for doubtful debts calculated and recorded in the general ledger is not in accordance with the approved policies in place.

Recommendation

The Authority should closely monitor the level of provisioning given that the level of provisioning has been manually adjusted after consideration of the circumstances of this pool of debtors.

Authority's comment

Recommendations are noted.
The provisioning is carried out on a monthly basis and Management makes adjustments to cases where recovery is doubtful.

5.5 Value Added Tax

As an audit procedure, revenue declared in the Authority's Value Added Tax ('VAT') returns are compared with 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 readily supported. No supporting document or detail was received for revenue of $31,438 not declared in the VAT returns for the year.

The audit further noted that the Authority is declaring VAT on Government grant based on utilization of the grant. This practice is inconsistent with the VAT Decree. If the Authority has made a prior arrangement with the Fiji Revenue & Customs Authority ('FRCA'), correspondences detailing the arrangement should be maintained by the Authority.

With the current practice of declaring grant on utilisation, audit noted a variance of $15,279 between VAT on utilization and that declared in the VAT return form.

The audit understands that the Authority is in the process of clarifying this issue with FRCA and Ministry of Finance.

The lack of proper supporting documentation and reconciliation increase the risk that incorrect VAT returns may be lodged to the Fiji Revenue & Customs Authority ('FRCA'). The lack of documented prior approval of the current practice increases the risk of penalties.

Recommendations

- **All revenue should be recognised and declared in the VAT return and adjusted for exempt and zero rated sales on the VAT form itself. This eliminates the need to keep a separate reconciliation of what is declared and what is recorded.**

- **The Authority should obtain a clarification on lodgement of VAT on Government Grant from FRCA.**

Authority's comment

Recommendations are noted.
Correspondence has been received from FRCA in regards to the $2m Government Grant for the Social Housing Policy. Accordingly this is HA's exempt activity thus, not subject to VAT. HA together with FRCA is currently

reviewing VAT on Government Grant and past returns as some rules have been revised upon their audit to ensure appropriate adjustments are made.

HA is now declaring its zero-rated revenue – mortgagee/foreclosed properties on which no VAT is charged.

5.6 Loan accounts with balance term of '0'

A number of loan accounts have been noted to have loan balance term of '0'. Audit understand that the system ceases charging arrears fees, service fees and other charges on these accounts as they have reached 'maturity'. However, some of these accounts still have balances outstanding.

Table 5.1 below provides a few examples of loan accounts which have balances outstanding but have loan term of 0:

TABLE 5.1: LOAN ACCOUNTS WITH ZERO LOAN TERMS

Customer number	Agreement number	Account balance	Particulars
0000034285	359769	65,922.88	Borrower 1
0000033421	301604	57,034.06	Borrower 2
0000032732	140724	58,361.48	Borrower 3i
0000035075	394505	102,343.75	Borrower 4
0000032962	159964	124,794.16	Borrower 5
0000032408	111562	10,639.63	Borrower 6

This increases the risk of errors in the recording of interest, arrears fees, service and other charges in the general ledger.

Recommendation

The Authority should review the current treatment of interest, fees and other charges for accounts with loan term 0 to ensure that risks of understatement of interest, fees and other charges are minimized.

Authority's Comment

Recommendations are noted.
A total of 151 accounts have been identified with term zero and actions are being taken to re-schedule these accounts in line with the MRA policy.

Management has now put in place a mechanism to review all accounts 6 months in advance before the loan term matures.

5.7 Loan account with credit balances

The following loan accounts recorded large credit balances in Lendsphere. Refer to Table 5.2 below for details.

TABLE 5.2: LOAN ACCOUNTS LARGE CREDIT BALANCES

Customer number	Agreement number	Account balance
36808	463817	7,108.41
37343	479055	7,881.23
38531	503258	25,361.99
36611	514683	75,866.76

Management have indicated that properties on these accounts have been sold and settlement has been completed. The outstanding balances recorded for these accounts need to be resolved and adjusted.

This indicates that the loan accounts noted above are incorrect and need to be reviewed and adjusted in the Lendsphere system.

Recommendation

The Authority should resolve the discrepancy detected above and provide necessary adjustments in the Lendsphere system to correct the loan accounts identified.

Authority's Comment

Recommendations are noted.
Going forward, Management will review all accounts in credit balances on a monthly basis.

This relates to computer system processing limitations.

5.8 Navision only customers

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 are some customer accounts maintained only in Navision and not in Lendsphere.

At 31 December 2012, the net receivable amount of 'Navision only accounts' was $157,574.

The audit understands that some of these are duplicate accounts, overpaid accounts and approved but not disbursed accounts. The Authority has created a provision for impairment for the full amount of $157,574.

The use of 'Navision only' accounts increase the risk of errors in reconciling the subsidiary ledger (Lendsphere ledger) with the control account (Navision ledger).

Recommendations

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

Authority's comment

Recommendations are noted.

Navision only customer accounts consists of the following: rental accounts, Staff Advance, Accounts pending settlement for non HA land, AS400 accounts not migrated to Lendsphere.

As at 31 May 2013 this is as follows:

Description	*Number*	*Balance*
Rental	*16*	*7 364*
Staff Advance	*129*	*62 013*
Pending Settlement	*17*	*(219 895)*
AS400 accounts to reprocess	*46*	*18 686*
Total	*208*	*(131 832)*

Apart from Rental and Staff Advance accounts are being reconciled to settle, write off or to transfer to LSP where applicable

This relates to computer system processing limitations.

5.9 Unidentified Deposits

The audit noted that suspense mortgage account recorded a balance of $108,456 in the general ledger. These represent direct salary deductions where the loan account numbers could not be identified.

In addition, the audit noted unidentified deposits recorded in the general ledger of $68,662. This is from customers who have made deposits but could not be identified or customers who have paid deposits but for which accounts have yet to be created on Lendsphere.

There is a high risk that individual loan balances currently recorded in Lendsphere is incorrect. The customer balances need to be corrected to include balances recorded in suspended mortgage account and unidentified deposits.

<u>Recommendation</u>

The Authority should identify the balances recorded in suspense mortgage and unidentified general ledger accounts to allocate these to the correct subsidiary accounts maintained in Lendsphere. These balances should be reconciled and updated in a timely manner.

<u>Authority's comment</u>

Recommendations are noted.

Credit balances for deposits for new customers are transferred to the respective debtor accounts on disbursement of new loans.

Credit balances in suspense account from DSD payments are being identified and posted to correct customer accounts on a monthly basis.

This relates to computer system processing limitations.

5.10 Arrears and Service Fees

The Authority was unable to explain posting of arrears fees and service fees totalling to $162,458 and $88,693 respectively.

There is a high risk that due to inconsistencies in the data flowed from Lendsphere (subsidiary) to Navision (general ledger), incorrect arrears charges may be recorded resulting in incorrect recording of arrears fees in the general ledger.

The finding indicate a high risk of inconsistencies and errors occurring in the transition process when arrears and service fees charged to customer accounts maintained in Lendsphere are streamed to the Navision system.

Recommendation

The Authority should investigate the audit gaps identified above and ensure that all inconsistencies occurring while data is flowed from Lendsphere to Navision are identified and corrected at the earliest.

Authority's comment

Recommendations are noted.
Management wishes to clarify the accounting applications in respect of realizing of arrears fees and service fees:

(a) In performing accounts the fees are booked to the customer account and realized in the general ledger as an income.
(b) In non-performing accounts the fees are booked in the customer accounts and are suspended in the general ledger accounts. However, all suspended fees and charges are realized to income in the month the account is made performing.

5.11 Methodology of calculating impairment of loans and advances

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 has 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 for preparing financial statements.

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 is understating 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 accordance with IFRS.

Recommendation

The Authority should review its policy and work towards complying with IFRS.

Authority's comment

Recommendations are noted.
HA considers its customers as secured loans and not pure financial assets. Impairment is recognized by calculating provision based on variance between security value for an account in arrears and loan balance after deducting suspended interest. This is in accordance with RBF Banking Supervision Policy Statement No.3. This is being further reviewed to adequately provide for doubtful debts.
This would be reviewed with the outcome for the revision of IAS 39 currently undertaken by IASB

5.12 Suspension of interest income on accounts in arrears

The Authority's current practice is to suspend interest charge and other charges accrued on impaired loan accounts which go into 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, or 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 debt on the account.

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

Recommendation

The Authority should review its policy and work towards complying with IFRS.

Authority's comment

Recommendations are noted

While we continue to apply the guidelines provided in the Reserve Bank of Fiji ('RBF') Banking Supervision Policy Statement No.3, and further understand that IAS 39 and IAS 18 is being revised by IASB to provide consistency in reporting the outcome of this would be applied accordingly

This relates to computer system processing limitations.

5.13 Interest suspended calculations

There were variances between the Authority's calculated interest suspended charges on a sample of loan accounts when compared to our manual calculation of the same. The variances were noted in the following accounts:

TABLE 5.3: VARIANCES IN INTEREST SUSPENDED CHARGES

Loan agreement number	Interest suspended calculated	System generated interest suspended	Variance
468029	13,705.52	11,421.23	2,284
399523	7,086	5,979	1,107
526746	331	88	242
136778	5,320	6,923	(1,603)

Incorrect calculation of interest suspended will result in incorrect charging and recognition of revenue, interest suspended and calculation of provision for doubtful debts. This could lead to disputes with customers.

Recommendation

The Authority should review instances of interest suspended calculation and ensure that the formula is in accordance with the credit policies and accounting standards.

Authority's comment

Comments are noted.
Our ICT department has liaised with the system provider in India and a detailed report has been provided as at 30th June 2013 which is under review. Necessary adjustments would be done in the General Ledger for 2013.

This relates to computer system processing limitations.

5.14 Allowance for Write Down of Inventory - Unsold Houses

The Authority made an allowance of $272,241 to write down the recognised amount of Unsold Houses (inventory). These are mostly repossessed properties which have yet to be resold.

The audit noted that a lot of the properties' accounts are 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 from prior years. During this time, houses have deteriorated and the valuation recorded in the Authority's records may be overstated.

An initial review of the property portfolio noted that a significant estimated write-down is required. The Authority then provided valuations by the Authority's valuer of the properties and a listing of offers to purchase or offers made to sell the properties. Taking this into account, the audit had estimated that the Authority's allowance for write down is understated by at approximately $76,532 for unsold properties and $67,712 for developed lots.

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

The slow process in foreclosing or settlement of an account increase the risk of damage or significant deterioration in properties repossessed.

Recommendations

The Authority should review:

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

Authority's comment

- *Pls provide specific case samples so we can provide explanation on valuation assessment keeping in mind that while land value appreciates, house value only may depreciate. Other factors that affect unsaleability – land to be dedicated, sitting tenants, legal issues (land disputes), etc. As a general rule, all properties are valued every 2 years. Also houses with unapproved plans (lean-to/complete structures) are not valued-only the land would be.*
- *We totally agree on this one as it would allow faster sale process and reduced stock inventory. Many properties listed as foreclosed have not had foreclosure process completed thereby delaying new sales. Unfortunately we do not find this out till sale is being processed.*

Recommendations are noted.
The Authority continues to provide for these inventories while all efforts are undertaken to sell or to dedicate where applicable.

5.15 Trade Creditors and Accruals

The following issues were detected during our audit of trade creditors and accruals:

Audit review of accruals concluded that there is a net over-accrual of $71,070. The major components of these are shown in Table 5.4 below:

TABLE 5.4: OVER-ACCRUALS

Description	Over-accrual
Capital expenditure	$15,924
Audit fees	$20,000
Annual accounts	$19,646

A variance of $12,908 was noted between the local creditors balance as per general ledger and the vendor report. The variance was due to the incorrect "channel of posting invoices". Instead of applying payments to invoices, payments are manually entered. Vendor reports then show payments for invoices not originally entered resulting in the vendor report being less than the general ledger.

The system is not able to generate an aged payables listing. Housing Authority and Housing Authority Cash are included as vendors.

Insurance accrual is maintained up to a maximum of $425,000. A pre-determined premium is charged to customers. Due to natural disasters in 2012, the amount maintained was utilised. Given the nature of liability and HAF's policy to insure the first level of losses up to $325,000, no actuarial assessment of the level of its premium and the amount of funds to be maintained/ accrued has been performed.

The audit gaps identified above increases risks of incorrect financial reporting. The difference between the reconciliation and the ledger indicates that either the reconciliation or the ledger is incorrect.

Recommendations

The Authority should:

- **ensure that the general ledger is updated for respective reconciliations.**
- **perform an actuarial assessment of the level of its premium and the amount of funds to be maintained.**

Authority's comment

Comments are noted
The module in the system for order processing and creditor booking together with report generation is not functioning properly. Thus, the need to maintain manual payment details.

Over-accruals have been subsequently adjusted.

5.16 Leave provisions

The following audit issues were detected during our audit of provision for annual, sick and long service leave:

- An unreconciled variance of $23,813 was noted between the provision balance recorded in the general ledger and the provision balance recorded in annual leave schedule;
- Sick leave hours due to staff were incorrectly entered into the system as sick leave days which inflated the provision for sick leave.
- Few staffs were marked absent in the Weekly Absentee Record (WAR) but did not have corresponding sick leave recorded in the payroll system.
- The annual leave liability accrual does not include on-costs such as FNPF and TPAF.
- The current calculation of Long Service Leave is not in accordance with methodology prescribed by IFRS; and
- A number of staff have high leave balances. The following provides examples of staff and management which have leave balances in excess of 50 days:

TABLE 5.5: STAFF WITH HIGH LEAVE BALANCES

Employee Initials	Balance of annual leave
JS	62
PV	53

Employee name	Balance of annual leave
VT	58
PM	55
SC	64

The incorrect sick leave balances recorded in the system resulted in an overstatement of sick leave by $23,525.

Failure to update payroll system for sick leave taken by staff increases risk of incorrect calculation of provision for sick leave and payment made to staff.

The methodology used by the Authority is not in accordance to the methodology identified by International Accounting Standard 37. This increases the risk of preparation of financial statements which are not in accordance with IFRS.

Carrying forward excessive leave balances to the next financial year would potentially increase the liability of the company when employees take leave. When an employee takes annual leave in future, the payout to the employee may be higher than if the leave were utilised in the current year. This is due to possible salary increases.

Recommendations

The Authority should:

- **correctly update the payroll system for sick leave balances utilized by staff.**
- **correctly calculate provision for annual leave and long service leave to ensure the calculations include all necessary costs and are in compliance with IFRS.**
- **adhere to the policies pertaining to leave balances. The employees should be encouraged to take leave so that duties can be rotated.**

Authority's comment

Comments are noted.
The Authority concurs with the recommendation and have put into place stringent measures to make sure that the Collective Agreement is adhered to. Leave to be managed appropriately to ensure leave accruals are reduced by the end of the year.

Strengthening of annual staff leave monitoring system with the above findings acknowledged.

5.17 Tender Deposits

The Authority did not follow its policy for refunding tender deposits to unsuccessful applicants upon signing the agreement with the successful applicant. As a result tender deposits are not refunded to unsuccessful bidders in a timely manner. From the total tender deposits recorded of $36,750, $15,000 related to tender deposits for 2007 and prior years and $12,500 for 2011 year.

Non-compliance with the tendering process and proper documentation increases the risk of fraud and error.

Recommendation

The Authority should ensure that tender deposits are refunded to unsuccessful bidders on a timely basis.

Authority's comment

Comments are noted.
All tender deposits have been refunded to the unsuccessful tenderers. Further, the Mortgagee Sale Tender Procedure has now been amended where no tender deposits are required, therefore, reconciliation issues will not arise in future.

5.18 Incomplete account details

The following accounts in Lendsphere had unknown land tenure details.

TABLE 5.6: ACCOUNTS WITH UNKNOWN LAND TENURE DETAILS

Customer number	Agreement number	Account balance
0000036993	469165	13,322.93
0000051547	1001HL0000147887	21,189.71
0000044053	1001HL0000022342	33,188.29
0000049605	1001HL0000146189	88,468.03

This indicates that not all information relating to loan accounts are recorded at the inception of loan accounts in Lendsphere system.

Recommendation

The Authority should ensure that proper and complete details are recorded for customer loan accounts created in the Lendsphere system.

Authority's comment

Comments are noted.
For all new property creation in lendsphere, the land tenure field is mandatory which means that the inputs cannot be completed or saved without the field populated.

The above accounts are the migrated accounts from AS400 to Lendsphere in 2009 where the land tenure field was not populated at the time of migration.

Nevertheless the land tenure fields for the above accounts have now been correctly populated.

Management has extracted an exception report and forwarded to the Valuation Dept to update the land tenure details.

This relates to computer system processing limitations.

5.19 Staff advances

Procedures on recovery of outstanding staff advances when an employee resigns, retires or is terminated is not being followed. Outstanding staff advance of $2,941 was recorded for staffs who are no longer employed by the Authority.

Failure to perform adequate follow-up procedures on the staff advances increases the risk of financial loss to the Authority.

Recommendation

The Authority should ensure that proper exit procedures are performed when an employee resigns or retires or is terminated to ensure that all staff advances are recovered to avoid financial losses to the Authority.

Authority's comment

Comments are noted.
The Authority concurs with the recommendation in making sure that proper employment exit procedures are in place to ensure any monies owed by an employee is collected.

Employees with employment contracts terminated are being written to make arrangement to clear their dues failing which it will either submitted to Small Claims Tribunal or be written off. Management will decide.

5.20 Incorrect account status

The audit reviewed accounts which have been 'written off' and noted that the following accounts still reflected an 'active' status in Lendsphere after write-off and have some balances recorded:

TABLE 5.7: ACCOUNTS WRITTEN OFF WITH BALANCES

Customer Number	Account Balance ($)
308323	316.84
337250	269.62
323691	110.89
425176	208.32

The audit further noted that these represents charges recorded in the loan accounts during the write-off process which need to be adjusted and corrected.

This indicates that the loan account balances noted above are incorrect and need to be adjusted.

Recommendation

The Authority should write off the accounts that are closed and any balances remaining to be investigated and appropriately adjusted in the general ledger.

<u>**Authority's comment**</u>

Comments are noted.
Management has extracted an exception report from the computer system to review each write off account and make necessary adjustments where necessary.

This relates to computer system processing limitations.

5.21 Payroll

Audit test of internal controls in Payroll noted the following:

- Personnel files were not updated on a timely basis; and
- Instances were noted whereby extension of contracts was not performed.

The audit gaps identified above increases risk of fraud and error.

<u>**Recommendations**</u>

The Authority should:

- **Update the changes in employee entitlements to ensure that a trail is maintained for changes and verification of whether accurate payment of salaries and wages is made.**
- **ensure that all current employees have current contracts.**

<u>**Authority's comment**</u>

Comments are noted.
The Authority concurs with the recommendation and assured the strengthening of the employee record management system, with the above report acknowledged

SECTION 6: PORTS TERMINAL LIMITED

The Ports Terminal Limited (PTL) started operating as a government commercial company in 1998 and was entrusted with the provision of the pilotage within ports and all coastal areas; stevedoring and cargo handling; warehousing and the operations of part of the local wharf in Suva and Lautoka.

The Fiji Government being a shareholder of the company endorsed the re – organization charter of the Maritime and Ports Authority of Fiji (MPAF) and PTL. In 2004 the Fiji Ports Corporation Limited took over the operations of PTL and MPAF with key provisions for PTL to become 100% subsidiary of FPCL.

The company conducts its business within the legal framework of the Companies Act, VAT Decree, Income Tax Act, Sea Port Management Act 2005, Public Enterprise Act, Accounting Standards and FIMSA Act.

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PART A – FINANCIAL INFORMATION

6.1 Audit Opinion

The audit of the financial statements of the Ports Terminal Limited for the year ended 31 December 2012 resulted in the issue of an unqualified audit report.

6.2 Abridged Statement of Financial Performance

Year Ended 31 December	2012 ($)	2011 ($)
Income		
Sales	15,365,224	13,081,250
Other Income	15,519	7,232
Total Income	**15,380,743**	**13,088,482**
Expenditure		
Staff and employee benefits	4,204,751	3,842,193

Year Ended 31 December	2012 ($)	2011 ($)
Depreciation and amortization expense	1,782,601	1,881,858
Finance costs	141,934	226,614
Equipment Hire	2,233,911	2,072,757
Machine costs	2,054,526	1,586,644
Management Fees	300,000	300,000
Other operating expense	2,143,417	1,772,941
Total Expenditure	**12,861,140**	**11,683,007**
Operating (loss)/profit before income tax	**2,519,603**	**1,405,475**
Income tax (expense)/ credit	(561,450)	(129,572)
Net (loss)/ Profit for the year after Income Tax	**1,958,153**	**1,275,903**

The company recorded a net profit of $1,958,153 in 2012 compared to $1,275,903 in 2011. This was mainly attributed to the increase in sales revenue by $2,283,974 (17%).

The company paid a dividend of $637,951 to Government in 2012. No dividend was paid in 2011.

6.3 Abridged Statement of Financial Position

As at 31 December	2012 ($)	2011 ($)
Current Assets		
Cash and cash equivalents	6,371,272	3,885,440
Trade and other receivables	1,040,519	777,277
Inventories	139,568	174,907
Financial Investments – held to maturity	250,000	250,000
Prepayments and other assets	489,714	203,875
Current Tax Benefit	---	109,516
Total Current Assets	**8,291,073**	**5,401,015**
Non Current Assets		
Property, plant and equipment	7,636,997	9,349,153
Trade and other receivables	1,441,199	1,441,199
Deferred tax asset	61,370	36,519
Total Non-Current Assets	**9,139,566**	**10,826,871**
Total Assets	**17,430,639**	**16,227,886**
Current Liabilities		
Interest bearing borrowings	332,438	319,424
Trade and other payables	1,496,448	1,374,465
Provisions	143,788	110,505
Current Tax Payable	39,846	---
Total Current Liabilities	**2,012,520**	**1,804,394**

As at 31 December	2012 ($)	2011 ($)
Non-Current Liabilities		
Interest bearing borrowings	3,041,834	3,374,272
Deferred income tax liability	703,288	696,425
Total Non Currents Liabilities	**3,745,122**	**4,070,697**
Total Liabilities	**5,757,642**	**5,875,091**
Net Assets	**11,672,997**	**10,352,795**
Equity		
Share Capital	3,084,300	3,084,300
Retained Earnings	8,588,697	7,268,495
Total Equity	**11,672,997**	**10,352,795**

Net assets increased by $1,320,202 or 13% in 2012 compared to 2011. This improved result is mainly due to increase in cash and cash equivalents by $2,485,832 or 64%.

PART B – CONTROL ISSUES

6.4 Anomalies noted in Fixed Assets Verification

The verification of fixed assets that was conducted subsequent to year end noted the following anomalies:

- Majority of the furniture and office equipment used by the company was not listed or recorded in the Fixed Asset Register (FAR);
- Majority of the assets used were quite old;
- Fixed Assets reported in the Fixed Asset Register were not tagged totalling to 8.9% of the Written Down Value (WDV) of assets ($676,487);
- Approximately 0.2% of the WDV of Fixed Asset ($16,297) reported in the Fixed Asset Register were verified as damaged.
- Instances were noted where the fixed assets were not tagged.

The carrying amount of fixed assets may be misstated at year end and makes it difficult to verify assets without tags.

This increases the risk of fraud and misappropriation of fixed assets.

Recommendation

The Company should ensure that fixed asset register and the assets used by the company is verified and updated.

Company's Comments

We note the comments. Many of the assets not listed in the FAR were those that were transferred to PTL during the restructure in 2005, thus they are physically available. The asset tagging exercise was carried out in 2011 and with the recruitment of the new stock controller for the company, we have engaged in the tagging of the rest of the assets and would be updated in 2013.

6.5 Missing Stock

At year end the company performs physical inventory verification of all inventory held at the end of the financial year.

The audit noted that inventory totalling $27,116 did not exist at balance date. These inventories were not written off by the Company but were provided for as obsolete stock.

The above indicates weak inventory controls that could result in potential loss from theft and fraud. In addition, there is a risk that inventory and provision for obsolete stock is misstated at year end.

Recommendation

The management should obtain approval from the Board of Directors to write off these missing inventories and formulate a policy on inventory purchases and management.

Company's Comments

Comments are noted. We have implemented procedures in 2013 at the Mechanical department to ensure better stock purchases and monitoring. We have implemented the inventory procedures and are currently in the process of adopting the Inventory Module. In addition, stringent compliance testing is currently done to ensure adherence to this. Management will seek Board approval for the write off of these missing inventories.

6.6 Outstanding Leave Contrary to Human Resource Policy

The Human Resource (HR) policy on annual leave states that an employee at any point in time can only accumulate a maximum of 10 annual leave days.

The audit noted forty one (41) instances where employees leave balance exceeded the maximum leave days as stipulated in the HR policy. Refer Table 6.1 for details.

TABLE 6.1: OUTSTANDING LEAVE

Employee Number	Annual leave days balance
8089	64
6080	57
2054	44
1196	43
5256	42
1222	41
Total	**291**

Accumulation of leave balances exposes the Company to incurring outstanding leave expenses at higher rates of pay.

Recommendation

The Management should ensure that staff take their annual leave and adhere to the policies pertaining to maximum annual leave balance.

Company's Comments

We note the comments. We are currently implementing policies to bring this into compliance.

6.7 Purchase Orders not raised

The audit noted purchases totalling $59,772 was made without raising a purchase order. Refer Table 6.2 for details of these purchases.

TABLE 6.2: PURCHASES WITHOUT PURCHASE ORDERS

Invoice date	Cheque No.	Particulars	Amount ($)
30/11/2012	81267	Creditor 1	4,543
30/11/2012	81267	Creditor 1	39,337
30/11/2012	81267	Creditor 1	1,246
30/11/2012	81267	Creditor 1	421
16/07/2012	81494	Creditor 1	7,490
11/10/2012	81378	Creditor 2	6,735
Total			**59,772**

There are risks of unauthorized purchases and liabilities not recorded at year end.

Recommendation

The Management should ensure that approved purchase orders are issued prior to purchasing.

Company's Comments

We note and agree with your comments. However, Finance did not have the details of these purchases and became aware of these purchases only when the supplier followed up for the payments. The parts were ordered by the Mechanical department without prior approval and issue of order from Finance.

We have adapted to stringent compliance testing to ensure purchase orders are approved and issued prior to purchasing.

6.8 Size of Board

The Board is comprises of only two active members (the Chairman and a Director) after the resignation of a Director on 24 December 2012.

In addition, the Board has a shortage of mixed of skills, expertise and experience to ensure high performance and decision making.

The lack of directors may hinder the progress of the company as there will be shortage of expert knowledge for stewardship functions.

Recommendation

The Management should in consultation with the Ministry of Public Enterprise ensure that the Board members appropriate to the size of the company and the skills required are appointed.

Company's Comments

Management notes the comments and will seek the necessary advise.

SECTION 7: YAQARA PASTORAL COMPANY LIMITED

The Yaqara Pastoral Company Limited (YPCL) is a 100% Government owned commercial company.

YPCL is the major producer and supplier of quality beef and currently its market share is around 10% of the annual slaughter amount in Fiji. YPCL also produces quality breeding bulls to be distributed to small holder beef farmers around Fiji. YPCL is the only such breeder in Fiji today.

YPCL business activity has primarily two divisions;
- Livestock Division
- Crops Division

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PART A – FINANCIAL INFORMATION

7.1 Audit Opinion

The audit of the financial statements of Yaqara Pastoral Company Ltd for the year ended 31 December 2011 resulted in a qualified audit report as follow:

Biological assets were recorded at a total value of $2,967,112. It has not been practicable to carry out normal audit procedures relating to the confirmation of biological assets as at 31 December 2011. As a result, audit was not able to confirm the existence or valuation of biological assets recorded in the statement of financial position. The annual mustering records are done after the balance date with not all livestock being driven to the counting stations. The total livestock used in the accounts were 5,502 while the mustering records showed 5,185, with estimation made on the 316 cattle to be present at balance date.

7.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2011 ($)	2010 ($)
Income		
Gross profit on trading	1,029,697	828,030
Other operating income	2,632,401	2,218,776
Total Income	**3,662,098**	**3,046,806**
Expenses		
Administrative expenses	947,161	850,583
Selling and distribution	-	2,545
Other operating expenses	142,956	180,873
Total Operating Expenditure	**1,090,117**	**1,034,001**
Operating profit from operations	**2,571,981**	**2,012,805**
Finance costs	1,381	1,885
Operating profit before income tax	**2,570,600**	**2,010,920**
Income tax expense	691,386	784,796
Profit after income tax	**1,879,214**	**1,226,124**

Total profit after tax increased by $653,090 or 53% in 2011 compared to 2010. This was a result of the increase in income, primarily from royalty income from the Natural Waters of Viti Limited. Royalty is paid to the company at a rate of 1.5% on the monthly turnover of Natural Waters of Viti Limited.

7.3 Abridged Statement of Financial Position

As at 31 December	2011 ($)	2010 ($)
Current Assets		
Cash on hand and at bank	2,266,820	1,016,512
Held-to-maturity investments	2,568,188	2,227,446
Biological assets	2,967,112	2,575,974
Other current assets	671,707	1,169,155
Total Current Assets	**8,473,827**	**6,989,087**
Non-Current Assets		
Property, plant and equipment	6,032,232	6,137,446
Other non-current assets	50,098	65,990
Total Non-Current assets	**6,082,330**	**6,203,436**
Total Assets	**14,556,157**	**13,192,523**
Current Liabilities		
Creditors and accruals	66,108	543,815
Other current liabilities	53,523	46,771
Total Current Liabilities	**119,631**	**590,586**
Non-Current Liabilities		
Deferred tax liabilities	427,637	462,207
Deferred income – grants	43,801	53,856
Total Non-Current Liabilities	**471,438**	**516,063**
Total Liabilities	**591,069**	**1,106,649**
Net Assets	**13,965,088**	**12,085,874**
Equity		

As at 31 December	2011 ($)	2010 ($)
Share Capital	1,191,846	1,191,846
Retained Earnings	12,773,242	10,894,028
Total Equity	**13,965,088**	**12,085,874**

Net assets increased by $1,879,214 or 15.5% in 2011 compared to 2010 as a result of an increase in total assets, specifically, cash on hand and at bank, biological assets and held to maturity investments. The substantial decrease in liabilities, specifically creditors and accruals, also contributed to the increase in net assets.

PART B – CONTROL ISSUES

7.4 Biological Assets

As at balance date, biological assets consisted of bulls, cows, steers, heifers, sheep and goats had a total value of $2,967,112. According to the mustering records provided for audit purposes, total livestock numbers at 5,185 while management accounted 5,501. The resulting variance of 316 was unexplained.

The biological assets at balance date could either be under/overstated in the accounts. As a result, audit could not confirm the valuation and existence of biological assets at balance date.

Recommendation

The mustering should be done at year end to ascertain the actual number of livestock available at the balance date.

Management comments

7.5 Employment Contract – Chief Executive Officer

The employment contract of the Chief Executive Officer (CEO)[1] expired in November 2011.

The audit noted that the employment contract of the CEO was not renewed upon expiry although she continued to work for the company. However, the CEO explained that her contract has not been finalised yet. A charted accounting firm together with the Board are still trying to finalise the contract as at the date of audit.

As a consequence, there is no legal contract for her services from the month of December 2011 to-date which could expose the company to legal actions if disagreements between the CEO and company arise.

[1]CEO Employment Contract Agreement

Recommendation

The CEO’s employment contract should be finalised at the earliest.

Management comment

7.6 Shareholders

The company has three shareholders, Fiji Government (99.9998%), Shareholder 2 (0.0001%) and Shareholder 3 (0.0001%). The audit noted that these two shareholders are no longer employed with the Fiji Government.

Incorrect shareholding is recorded at Registrar of Companies.

Recommendation

It is recommended that the two shares should be transferred to positions within Government, rather than individuals. For instance, to the Permanent Secretary for Agriculture, or the Permanent Secretary for Finance or the Permanent Secretary for Public Enterprises, as the case may be.

Management comments

SECTION 8: FIJI ELECTRICITY AUTHORITY

The Fiji Electricity Authority (FEA) is established, incorporated and constituted under the provisions of the Electricity Act of 1966 and began operations from 1 August that year.

The Authority is governed under the Public Enterprise Act 1996. The principal activity of the FEA is to provide and maintain a power supply that is viable, economically sound and consistent with the required standards of safety, security and quality of power supply.

The Authority aims to provide clean and affordable energy solutions to Fiji and the Pacific and to provide all energy through renewable resources by 2011. The FEA is entrusted with enforcing the Electricity Act and regulations, setting standards, examining and registering electricians, and is empowered to approve and license suppliers to serve certain areas.

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PART A – FINANCIAL INFORMATION

8.1 Audit Opinion

The audit of the financial statements of the Fiji Electricity Authority for the year ended 31 December 2012 resulted in an unqualified audit report.

8.2 Abridged Income Statement

Year Ended 31 December	2012 $'000	2011 $'000
Revenue		
Operating revenue	290,451	288,778
Other operating income	5,852	16,766
Total Revenue	**296,303**	**305,544**
Expenditure		
Personnel expenses	17,377	17,941
Fuel costs	105,136	137,881
Lease and Rent expenses	1,375	1,830
Electricity purchases	10,045	14,401
Depreciation	34,522	29,914
Amortisation of Intangible assets	522	524
Cyclone Evan – Restoration costs	5,013	-
Losses due to flooding	1,314	-
Other operating expenses	42,788	39,584
Total Expenditure	**218,092**	**242,075**
Profit from Operations	**78,211**	**63,469**

Year Ended 31 December	2012 $'000	2011 $'000
Net finance costs	16,375	11,042
Operating profit before income tax	**61,836**	**52,427**
Income tax benefit/(expense)	13,509	(517)
Net profit for the year after income tax	**75,345**	**51,910**

The Authority recorded an increase in net profit after tax of $23.4 million or 45% in 2012 compared to the previous year. The increase in profit was largely due to a reduction in total expenditure by $23.9 million or 10%. Tax benefit to accommodate a one-off 40% fuel investment allowance granted to FEA by the Ministry of Finance for the Nadarivatu Renewable Energy Project in 2012 also contributed to the high net profit recorded.

Purchases of electricity from other providers and fuel costs decreased resulting in the reduction in the total operating expenditures.

Other operating income decreased by $10.9 million or 65% due to reduction in business interruption claims received in 2012.

8.3 Abridged Balance Sheet

As at 31 December	2012 $'000	2011 $'000
Assets		
Cash and cash equivalents	28,781	3,640
Held to maturity financial assets	11,883	23,409
Receivables and prepayments	33,732	42,888
Other current assets	24,651	18,072
Property, plant and equipment	912,929	890,722
Other non-current assets	19,506	4,279
Total Assets	**1,031,482**	**983,010**
Liabilities		
Trade and other payables	96,424	93,086
Interest bearing borrowings	328,778	359,285
Other current liabilities	2,355	11,119
Other non-current liabilities	52,031	47,468
Total Liabilities	**479,588**	**510,958**
Net Assets	**551,894**	**472,052**
Total Capital and Reserves	**551,894**	**472,052**

Net assets increased by $79.8 million or 17% in 2012 compared to 2011 mainly due to an increase in total assets, specifically short term deposits and tax refund due, and the reduction in total liabilities.

The decrease in liabilities from 2011 to 2012 resulted mainly from the reduction in interest bearing borrowings.