EXCELLENCE IN PUBLIC SECTOR AUDITING

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF FIJI

Audit Report on Government Commercial Companies, Commercial Statutory Authorities, Majority Owned Entities, Off-Budget State Entities – December 2014

Rerevaka na Kalou ka doka na Tui

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December 2014

REPUBLIC OF FIJI

OFFICE OF THE AUDITOR GENERAL

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Excellence in Public Sector Auditing

File: 102

31 December 2014

The Hon. Dr. Jiko Luveni
Speaker of the Parliament of the Republic of Fiji
Parliament
Fiji

Dear Dr. Luveni

AUDIT REPORT ON GOVERNMENT COMMERCIAL COMPANIES, COMMERCIAL STATUTORY AUTHORITIES, OFF BUDGET STATE ENTITIES AND MAJORITY OWNED COMPANIES FOR THE YEAR ENDED 31 DECEMBER 2014

In accordance with section 152 (13) of the Constitution, I am pleased to transmit to you my report on the audit of government commercial companies, commercial statutory authorities, off budget state entities and majority owned companies for the year ended 31 December 2014.

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

Tevita Bolanavanua
AUDITOR -GENERAL

AUDITOR-GENERAL FIJI

FOREWARD

The report discusses the results of the audits undertaken for 15 Government Commercial Companies (GCC), Commercial Statutory Authorities (CSA), Off Budget State Entities (OBSE) and Majority Owned Entities (MOE) that were audited during 2014.

12 entities audited under this category of state entities were issued unqualified audit opinions which indicate that their financial statements all give true and fair views (or are presented fairly in all material respects) in accordance with the identified reporting framework. 3 entities were issued qualified audit opinions which showed that while their financial statements were fairly stated, their financial data indicated a failure to follow applicable accounting standards or there were significant uncertainties concerning certain financial data.

Out of the 15 entities audited, 3 entities, Rewa Rice Limited, Fiji Broadcasting Corporation Limited (FBCL) and Fiji Hardwood Corporation Limited recorded losses in their operations. FBCL recorded losses for both the 2012 and 2013 financial years which were audited in 2014. The following table summarizes the status of audits of all GCC, CSA, OBSE and MOE to date.

	Government Entity	**Audit Completed**	**Audit Opinion**	**Remarks**
	GCC			
1	Airport Fiji Limited	2013	Qualified	Audit of accounts is up to date.
2	Fiji Broadcasting Corporation	2013	Qualified	Audit of accounts is up to date.
3	Fiji Ships & Heavy Industries	2013	Unqualified	Audit of accounts is up to date.
4	Food Processor Limited	2007	Qualified	2008 accounts not submitted for audit.
5	Fiji Ports Corporation Limited	2013	Unqualified	Audit of accounts is up to date.
6	Post Fiji Limited	2013	Unqualified	Audit of accounts is up to date.
7	Rewa Rice Limited	2009	Unqualified	2010 account to be audited in 2015.
8	Unit Trust of Fiji	2013	Unqualified	Audit of accounts is up to date.
9	Viti Corp	2006	Qualified	2007 account not submitted for audit.
10	Yaqara Pastoral Company	2012	Unqualified	2013 audit completed & accounts with entity for signing.
11	Fiji Public Trustee Corporation Limited	2013	Unqualified	Audit of accounts is up to date.
	CSA			
1	Public Rental Board	2013	Unqualified	Audit of accounts is up to date.
2	Housing Authority	2013	Unqualified	Audit of accounts is up to date.
3	Fiji Electricity Authority	2013	Unqualified	Audit of accounts is up to date
4	Fiji Meat & Industry Board	2013	Unqualified	Audit of accounts is up to date.
	MOE			
1	Pacific Fishing Company Ltd	2013	Unqualified	Audit of accounts is up to date.
2	Fiji Hardwood Corporation	2008	Qualified	2009 accounts to be audited in 2015.
	OBSE			
1	Fiji Development Bank	2014	Unqualified	Audit of accounts is up to date.

Food Processor Limited and Viti Corp have not submitted their accounts for audit for a number of years. Viti Corp operation is now managed by the Ministry of Public Enterprise while Food Processor Limited which is still operating had not submitted its accounts for audit since 2008.

There is a need for all government commercial entities to place more emphasis in the early preparations and audits of their accounts to ensure that important decisions made on behalf of their organizations are based on up to date financial data and accounting information.

The reports discussed for these entities are divided in two parts; Part A discusses the financial information about the entities reported while Part B discusses discrepancies and defects in their operations.

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

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1. Housing Authority
2. Fiji Hardwood Corporation Limited
3. Fiji Ports Corporation Limited
4. Fiji Ships & Heavy Industries Limited
5. Fiji Development Bank
6. Fiji Public Trustee Corporation Limited
7. Pacific Fishing Company Limited
8. Fiji Broadcasting Corporation Limited
9. Fiji Electricity Authority
10. Post Fiji Limited
11. Unit Trust of Fiji (Management) Limited
12. Fiji Meat Industry Board
13. Public Rental Board
14. Rewa Rice Limited
15. Airport Fiji Limited

SECTION 1: HOUSING AUTHORITY OF FIJI

Programme Statement

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

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

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

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

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PART A: FINANCIAL INFORMATION

1.1 Audit Opinion

The audit of the financial statements of the Housing Authority of Fiji for the year ended 31 December 2013 resulted in issue of an unqualified audit report.

1.2 Abridged Statement of Financial Performance

Year Ended 31 December	2013 ($)'000	2012 ($)'000
Income		
Interest Income	9,684	10,363
Interest Expense	(5,409)	(5,778)
Net Interest Income	**4,275**	**4,585**
Other Operating Income	9,940	6,580
Total Income	**14,215**	**11,165**

Year Ended 31 December	2013 ($)'000	2012 ($)'000
Recurrent Expenditure		
Staff Costs	5,096	4,703
Bad & Doubtful Debts	260	967
Depreciation of Property, Plant and Equipment	686	590
Amortisation of Intangible Asset	486	391
Cost of Sales	3,355	721
Other Operating Expenses	3,909	3,270
Total Expenditure	**13,792**	**10,642**
Total Comprehensive Income for the year after Tax	**423**	**523**

The Authority recorded a total comprehensive income after tax of $423,000 in 2013 compared to $523,000 in 2012. The decline in comprehensive income after tax $100,000 or 19.1% was due to the increase in total expenses by $3,150,000 or 29.6% in 2013 compared to 2012.

The increase in total expenditure was mainly due to increase in cost of sales for the housing lots developed by the Authority.

1.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)'000	2012 ($)'000
Assets		
Cash & Cash Equivalents	2,810	3,010
Loans and Advances	89,381	98,510
Inventories	41,320	32,277
Land held for future development	2,269	2,498
Property, Plant & Equipment	9,042	9,163
Investment Property	1,041	540
Other Assets	4,009	4,504
Held to maturity investments	31,000	22,000
Intangible Assets	764	496
Total Assets	**181,636**	**172,998**
Liabilities		
Borrowings	113,385	105,685
Trade and other Payables	14,460	13,867
Employee Benefit Liability	298	390
Provisions	67	53
Total Liabilities	**128,210**	**119,995**
Net Assets	**53,426**	**53,003**
Accumulated Funds		
Capital	41,772	41,772
Government Grant	15,958	15,958
Asset Revaluation Reserve	2,249	2,249
Accumulated Losses	(6,553)	(6,976)
Total Accumulated Funds	**53,426**	**53,003**

The Authority's net asset increased by $423,000 or 1% in 2013 compared to 2012. This was largely attributed by the increases in investment held to maturity and inventories.

PART B – CONTROL ISSUES

1.4 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 the financial statements is prepared under.

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

In its current calculation, the Authority 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 of calculating impairment 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.

1.5 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.

1.6 Slow Movement in Inventory

The audit noted that for some properties, foreclosure commenced long time ago however have not been completed to date due to various reasons such as illegal tenants residing on the property.

The audit reviewed the properties individually to determine the sale-ability of the properties taking into consideration house condition. However, the audit estimates that the impairment balance is fairly stated for unsold properties and for developed lots.

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

Recommendation

The Authority should review its procedures for foreclosure and settlement with a view of completing this process much earlier and reduce the risk of financial loss to the Authority.

Authority's Comment

The concerns of the Auditors are noted.

The status of the foreclosed properties and mortgagee sale properties are as follows:

1. *Foreclosed Properties*

   As at 31/12/2013, 15 foreclosed properties were held in stock nationwide. The Authority has put in concerted effort to sell the properties. One property has already been sold. Also, in the list are 6 properties where some problems exist and sale cannot be undertaken until the existing problems are resolved. This is being attended to and necessary action will be taken on resolution of the problem. The Authority will put in efforts to sell the balance of 8 properties.

2. *Mortgagee Sale Properties*

   Properties sold on mortgagee sale are also being processed for settlement. Currently, there are 15 cases which have been sold vide mortgagee sale out of which 7 cases are being attended to by our Litigation team to obtain vacant possession of the properties. There are 8 cases with our Conveyancing team for completion of the legal documentation and settlement.

Going forward, we have placed measures that would reduce the turnaround time to complete the sale of properties and settlement of properties sold under mortgagee sale.

SECTION 2: FIJI HARDWOOD CORPORATION LTD

Programme Statement

The Fiji Hardwood Corporation Ltd (FHCL) was established to administer the Government's hardwood plantations, located on Viti Levu and Vanua Levu, on commercial basis.

The principal activities of the company during the year ended 31 December 2008 were the business management of forest plantations, timber growers and the sale of trees and timber.

During 2008 financial year the company was also engaged in processing of logs into sawn timber. Apart from the above there were no significant changes in the nature of activities of the company during the year.

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PART A – FINANCIAL INFORMATION

This report is for the audit conducted for the year ended 31 December 2008. Fiji Hardwood Corporation Limited (FHCL) has not provided for audit accounts for the years ended 31 December 2009 to 2013.

2.1 Audit Opinion

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

The audit was not able to observe the counting of physical inventories as at 31 December 2008 and also unable to ascertain the existence of inventories of $6,957,728 by other audit procedures due to the unavailability of underlying records. As a result, sufficient appropriate audit evidence with regards to the accuracy and valuation of inventories as at 31 December 2008 was unable to be obtained.

Since the audit was not able to be satisfied by alternate means as to the accuracy, existence and valuation of inventories as at 31 December 2008 in the determination of financial performance, it was not able to determine whether any adjustments may be necessary in respects of the loss for the year ended 31 December 2008 as reported in the statement of comprehensive income.

2.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2008 ($)	2007 ($)
Revenue		
Sales	19,697,800	13,095,600
Cost of sales	8,380,713	5,923,100
Gross Profit	**11,317,087**	**7,172,500**
Other Income	538,675	317,415
Total Revenue	**11,855,762**	**7,489,915**
Expenditure		
Distribution Expense	979,174	520,449
Administration & Operating Expenses	6,141,359	4,627,476
Change in fair value of forest trees	4,577,062	26,435,955
Total Expenditure	**11,697,595**	**31,583,880**
Profit/(Loss) from operations	**158,167**	**(24,093,965)**
Finance Income	19,337	19,806
Finance cost	2,102,276	1,786,004
Loss before tax	**(1,924,772)**	**(25,860,163)**
Income tax expense	-	-
Total comprehensive loss for the year	**(1,924,772)**	**(25,860,163)**

Net loss recorded by the Corporation resulted mainly from the changes in the fair value of forest assets. This led to the substantial decrease in total comprehensive loss recorded in 2008 by 93%.

The changes in the value of the forest were the result of the revaluation exercise carried out in 2008.

2.3 Abridged Statement of Financial Position

As at 31 December	2008 ($)	2007 ($)
Assets		
Cash and cash equivalents	450,366	468,386
Inventories	6,957,728	3,170,884
Other current assets	950,461	1,599,400
Forest Assets	128,592,938	133,170,000
Property, plant and equipment	6,717,147	6,837,589
Total Assets	**143,668,640**	**145,246,259**
Liabilities		
Interest bearing borrowings	18,513,988	18,249,724
Other liabilities	3,796,448	3,713,559
Total Liabilities	**22,310,436**	**21,963,283**
Net Assets	**121,358,204**	**123,282,976**
Shareholders' Equity		
Share Capital	100,000,000	100,000,000
Accumulated Profits	21,358,204	23,282,976
Total Shareholders' Equity	**121,358,204**	**123,282,976**

The Corporation's net assets declined by $1.9 million in 2008 compared to 2007. This was due to the decrease in the value of forest assets by $4.5 million. The revaluation of forest assets was carried out in 2008.

PART B - CONTROL ISSUES

2.4 Inventory

Inventory recorded in the 2008 financial statement amounted to $6.9 million.

2.4.1 Qualification over Inventory

The inventory count for the year ended 31 December 2008 was not attended by the auditors. Additionally, the audit noted that the year-end inventory costing was not updated to correctly reflect the year to date data. This resulted in a misstatement of $221,000 on the sample tested during the audit.

As the inventory count was not attended by the auditors, the existence of year-end inventory balance could not be verified. The misstatement noted in inventory costing on the sample tested indicated that the remaining inventory balance costing was materially misstated. Therefore, the accuracy and valuation of year-end inventory balance could not be ascertained.

2.4.2 Change in inventory provision method

The processes of inventory provisioning of sawn timber take two months, on average. A sawn timber arriving at the Lautoka Office goes through three compulsory processes, which is treatment, air drying and sorting.

A review of the inventory provision method indicated that sawn timber between 90 to 180 days is provided for based on a percentage while sawn timber over 180 days is provided for based on $150 per cubic meter. The method was adopted in 2006 when inventory provision was first introduced in the company. Following the introduction, the same method has been consistently applied to date.

Until 2012 when the Lautoka Office was operating, all sawn timber is provided for irrespective of the stage the sawn timber is in. However, the audit is of the view that only sawn timber ready for sale should be provided for. Hence, the provisioning for sawn timber has been over stated.

Furthermore, the basis for inventory provisioning method could not be ascertained and this may result in a material misstatement of inventory balance.

Recommendation

The Management of FHCL should ensure that:

- **Year-end inventory counts are attended by the auditors;**
- **Year-end inventory costing are reviewed and updated; and**
- **Inventory provision process method is reviewed.**

Management Comments

We acknowledge the issues raised in the audit memorandum. Please be advised that FHCL is currently undergoing restructure and is recruiting a new executive management team upon completion of the restructure.

In 2013, FHCL terminated the employment of former Chief Financial Officer and appointed Shobna Lata as Acting Accounts Lead Supervisor.

Furthermore, we wish to highlight progress made by FHCL in implementing strict internal controls, improving accounting process, minimising costs and increasing revenue. These are detailed as follows:

- *Reduction of petty cash float balance*
- *Removal of FHCL's access telephone lines and mobile phones*
- *Daily monitoring of FHCL's cash flow balance*
- *Review of three (3) quotations from suppliers before purchase of goods*
- *Executing new agreements with harvesting contractors*
- *Reduction of loan balance by $3.5 million in 2013*
- *Vehicle mileage tracking*
- *Monitoring of telephone calls*
- *Removal of medical insurance cover*

2.5 Lack of Supporting Documents

The audit of the accounts for the year ended 31 December 2008 was conducted in 2012/2013.

Due to the significant lapse of time and staff turnover since 2008, the lack of supporting documents was noted over the following areas:

- inventory costing;
- expenses vouching;
- supplier invoices;
- other assets vouching;
- other liabilities vouching; and
- other receivables vouching.

The lack of appropriate supporting documents increases the risk of fraud in the company.

Recommendations

- **Management should ensure that all documents are properly filed and maintained in line with the company's file retention policy.**
- **Management should have a proper succession process in place to ensure that any new employee understands the processes and procedures of the company.**

Management Comments

We acknowledge the issues raised in the audit memorandum. Please be advised that FHCL is currently undergoing restructure and is recruiting a new executive management team upon completion of the restructure.

In 2013, FHCL terminated the employment of former Chief Financial Officer and appointed Shobna Lata as Acting Accounts Lead Supervisor.

Furthermore, we wish to highlight progress made by FHCL in implementing strict internal controls, improving accounting process, minimising costs and increasing revenue. These are detailed as follows:

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- *Executing new agreements with harvesting contractors*
- *Reduction of loan balance by $3.5 million in 2013*
- *Vehicle mileage tracking*
- *Monitoring of telephone calls*
- *Removal of medical insurance cover*

2.6 Breach of Debt Covenants

The total interest bearing borrowings by the Fiji Hardwood Corporation Limited amounted to $18.5 million as at 31 December 2008.

The audit noted that the company was unable to meet the loans and interest repayments in a timely manner as determined in the loan agreement during the year.

Furthermore, the audit noted that the Fiji Investment Corporation Limited and Fiji Development Bank loan agreement requested audited financial statements to be presented within 90 days after the end of the financial year. However, no action was taken against the company regarding the above apart from penalty interest charges on late/non repayment.

The above may be attributed to the poor cash flow faced by the company.

As a result, the company incurred significant penalty interest due to late and non-repayment of loans. In addition, the company was also vulnerable if lenders called for the loan repayment on demand following the breaches of the conditions of the loan agreements.

Recommendations

Management should ensure that loan and interest repayments are done in a timely manner to reduce additional financial loss to the company in terms of penalty interest and to ensure that the loan repayment is not called on demand.

Management Comments

We acknowledge the issues raised in the audit memorandum. Please be advised that FHCL is currently undergoing restructure and is recruiting a new executive management team upon completion of the restructure.

In 2013, FHCL terminated the employment of former Chief Financial Officer and appointed Shobna Lata as Acting Accounts Lead Supervisor.

Furthermore, we wish to highlight progress made by FHCL in implementing strict internal controls, improving accounting process, minimising costs and increasing revenue. These are detailed as follows:

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- *Executing new agreements with harvesting contractors*
- *Reduction of loan balance by $3.5 million in 2013*
- *Vehicle mileage tracking*
- *Monitoring of telephone calls*
- *Removal of medical insurance cover*

2.7 Segregation of Duties

Segregation of duties and responsibilities require that no one person handle transactions completely from beginning to end. It is a sound practices which should provide the means of assuring the integrity of each organisation, recordings and custody.

The audit noted the following issues relating to segregation of duties:

Cash handling

The same officers maintain receipt books, receive monies, update deposit books and banking of receipts for each segment.

Segregation of duty is lacking in cash handling as the same staff are involved in receipting, reconciling cash receipts at the end of the day, depositing money and also preparation of bank reconciliations.

Journal posting

Any staff from the Finance Section with MYOB access can post journals into the system, that is, there is no IT control on restricting certain staff to post journals. In addition, there is no IT control to limit the general ledgers used by a particular staff for posting journals.

The lack of segregation of duties over cash handling increases the risk of misappropriation of cash to the company.

Furthermore, the lack of segregation of duties over system access depending on job description increases the risk of fraud and manipulation of accounts.

Recommendations

Management should review the cash handling process and system access privileges and implement appropriate controls.

Management Comments

We acknowledge the issues raised in the audit memorandum. Please be advised that FHCL is currently undergoing restructure and is recruiting a new executive management team upon completion of the restructure.

In 2013, FHCL terminated the employment of former Chief Financial Officer and appointed Shobna Lata as Acting Accounts Lead Supervisor.

Furthermore, we wish to highlight progress made by FHCL in implementing strict internal controls, improving accounting process, minimising costs and increasing revenue. These are detailed as follows:

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- *Executing new agreements with harvesting contractors*
- *Reduction of loan balance by $3.5 million in 2013*
- *Vehicle mileage tracking*
- *Monitoring of telephone calls*
- *Removal of medical insurance cover*

2.8 Statutory Returns

The company is in default of timely annual return lodgement, statutory accounts and income tax return.

The last annual return was filed on 25 April 2008 for the period ended 31 December 2007. Annual returns have not been done subsequently as financials statements have not been signed for 2009 to 2013.

The last income tax return was filed for 31 December 2006. However, the audit also noted that no action has been taken against the company.

Failing to lodge statutory returns may result penalty against the company.

Recommendation

Management should ensure that all statutory returns are filed with the respective authority in a timely manner.

Management Comments

We acknowledge the issues raised in the audit memorandum. Please be advised that FHCL is currently undergoing restructure and is recruiting a new executive management team upon completion of the restructure.

In 2013, FHCL terminated the employment of former Chief Financial Officer and appointed Shobna Lata as Acting Accounts Lead Supervisor.

SECTION 3: FIJI PORTS CORPORATION LIMITED

Programme Statement

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 and lost control of Ports Terminal Ltd on August 2013 due to the sales of fifty one per cent (51%) of its shares in Ports Terminal Ltd to Aitken Spence PLC of Sri Lanka.

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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 2013 resulted in the issue of an unqualified audit report.

3.2 Statement of Financial Performance

As at 31 December	Group		Company	
	2013 ($)	2012 ($)	2013 ($)	2012 ($)
Income				
Marine Services	10,732,061	8,759,574	10,732,061	8,759,574
Dockage	7,392,747	5,992,933	7,392,747	5,992,933
Wharfage	6,446,803	5,822,217	6,446,803	5,822,217
Storage	2,797,257	4,418,896	2,797,257	4,418,896
Other Operating Revenue	18,108,557	22,506,941	4,472,353	4,241,296
Other Revenue	9,284,335	2,724,362	19,408,063	4,253,822
Total Income	**54,761,760**	**50,224,923**	**51,249,284**	**33,488,738**
Expenditure				

As at 31 December	Group		Company	
	2013 ($)	2012 ($)	2013 ($)	2012 ($)
Operating Expenses	9,384,507	9,317,767	4,757,892	2,935,885
Salaries and Benefits	9,402,161	10,032,549	4,689,138	4,419,717
Property Expenses	3,474,776	3,994,708	3,474,776	3,994,708
Depreciation	9,784,887	10,462,869	8,339,410	8,312,746
Marine Service Charge	6,960,056	5,846,926	6,960,056	5,846,926
Finance Expenses	917,165	1,437,206	892,023	1,400,726
Total Expenditure	**39,923,552**	**41,092,025**	**29,113,295**	**26,910,708**
Operating (loss)/profit before income tax	**14,838,208**	**9,132,898**	**22,135,989**	**6,578,030**
Income tax (expense)/ credit	(1,779,038)	(1,823,144)	(1,094,707)	(1,179,166)
Share of profit in associate	675,564	-	-	-
Net (loss)/ Profit for the year after Income Tax	**13,734,734**	**7,309,754**	**21,041,282**	**5,398,864**

The company and subsidiaries recorded net profit after tax of $13,734,734 an increase of $6,424,980 (88%) compared to 2012. The increase was mainly attributed to the improvement in other revenue collection by $6,559,973 (240%). The company paid a dividend of $12,939,691 in 2013 compared to $2,821,101 in 2012.

3.3 Statement of Financial Position

As at 31 December	Group		Company	
	2013 ($)	2012 ($)	2013 ($)	2012 ($)
Current Assets				
Cash and cash equivalents	14,260,317	18,260,838	10,577,766	9,087,108
Trade and other receivables	1,747,623	3,302,980	1,183,746	1,924,941
Investments	750,000	3,000,000	750,000	2,750,000
Inventories	175,276	294,931	86,554	75,883
Other current assets	966,629	1,362,782	834,934	775,059
Loan to Subsidiaries	---	---	102,440	430,865
Loan to associate company	345,988	---	345,988	---
Income Tax Asset	751,155	198,743	695,295	211,227
Total Current Assets	**18,996,988**	**26,420,274**	**14,576,723**	**15,255,083**
Non – Current Assets				
Property, plant and equipment	97,191,447	112,649,864	91,488,617	99,005,019
Financial Assets	---	58,330	---	---
Intangible asset	153,430	226,143	145,997	217,373
Investment property	4,282,660	4,311,660	4,282,660	4,311,660
Loan to subsidiaries	---	---	1,552,868	4,697,141
Loan to associate company	2,695,842	---	2,695,842	---
Investment in FSHIL	----	---	6,660,000	9,744,300
Investment in associate company	9,625,794	---	8,950,230	---
Deferred tax assets	3,484,803	1,547,418	3,425,647	2,157,217
Total Non–Current Assets	**117,433,976**	**118,793,415**	**119,201,861**	**120,132,710**
Total Assets	**136,430,964**	**145,213,690**	**133,778,584**	**135,387,793**
Current Liabilities				
Trade Payables and Accruals	5,055,584	4,699,508	4,041,550	4,160,501
Interest Bearing Borrowings	3,775,597	3,493,086	3,601,855	3,319,344
Provisions	100,000	251,459	100,000	251,459
Employee Benefit liability	497,912	706,322	455,917	495,738

As at 31 December	Group		Company	
	2013 ($)	2012 ($)	2013 ($)	2012 ($)
Total Current Liabilities	**9,429,093**	**9,150,375**	**8,199,322**	**8,227,042**
Non-Current Liabilities				
Interest bearing borrowings	26,523,633	36,485,110	26,404,067	36,192,137
Employee Benefit liability	104,990	---	104,990	---
Total Non-Current Liabilities	**26,628,623**	**36,485,110**	**26,509,057**	**36,192,137**
Total Liabilities	**36,057,716**	**45,635,485**	**34,708,379**	**44,419,179**
Net Assets	**100,373,248**	**99,578,205**	**99,070,205**	**90,968,614**
Shareholder's Equity				
Share Capital	73,154,852	73,154,852	73,154,852	73,154,852
Accumulated Profits	27,218,396	26,423,353	25,915,353	17,813,762
Total Shareholder's Equity	**100,373,248**	**99,578,205**	**99,070,205**	**90,968,614**

The net assets of the company and its subsidiaries improved by $795,043 (1%) in 2013 compared to 2012. This was due to the decreases in liabilities by $9,577,768 (21%) in 2013.

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 to avoid fraud and error.

Recommendation

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

Company's Comments

Comments are noted. Management is currently working on automating the invoice function via fully integrated operations software and is expected to be implemented in the third quarter of 2014.

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

Comments are noted. Management has taken up this matter with RFMF and correspondences have been made accordingly and a deadline of 31st March 2014 was given. RFMF has not been able to produce any documentation to support payment of this. Management will therefore now seek board endorsement for write-back of these amounts.

3.6 Employee Awareness

The audit noted that fraud awareness on whistleblowing policy has not been conducted by the management staff.

Lacked awareness on fraud may not encourage employees to come forward to report any suspicious activities in the Company.

Recommendation

The Human Resource Department should ensure that regular fraud awareness workshops are undertaken.

Company's Comments

We note the comments. Managements will ensure that the above recommendations will be adhered and undertaken in the current year.

3.7 Unaccounted Investment

The audit noted unaccounted investment of $1,002,228 between the Fiji Ports Corporation Limited and Fiji Ships and Heavy Industries Limited records.

The Company records reflected $6,660,000 investment in Fiji Ships and Heavy Industries Limited while the Fiji Ships and Heavy Industries Limited recorded $7,662,228.

Failure to reconcile the variance and record the correct information in the account will result in the misstatement of the financial statement. Hence the accounts would not be fairly stated and correctly reflects the financial position of the company.

Recommendation

The Company should ensure that variances identified above are rectified and adjusted accordingly in the 2014 financial year.

Company's Comments

Whilst management notes the comments, it must be stated that the original investment entry for this was processed in FPCL books in 2009 and to date no comments has been raised in any audit. The variance is acknowledged; however a mock eliminations entry during consolidations ensures that Group accounts are not misstated in any way. Attempts to rectify the anomaly in the past were hindered by lack of documentations available supporting the basis for the original entry. Nevertheless management notes the above and will endeavour to resolve in 2014 financial year.

SECTION 4: FIJI SHIPS & HEAVY INDUSTRIES LIMITED

Programme Statement

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 2013 resulted in the issue of an unqualified audit report.

4.2 Abridged Statement of Financial Performance

Year Ended 31 December	2013 ($)	2012 ($)
Income		
Operating Income	5,660,561	4,905,788
Other Operating Income	203,008	169,161
Total Income	**5,863,569**	**5,074,949**

Year Ended 31 December	2013 ($)	2012 ($)
Expenditure		
Direct Costs	1,522,066	1,224,787
Employee Benefits Expenses	1,391,978	1,408,081
Depreciation and Amortization Expense	502,792	367,522
Finance Costs	93,500	108,691
Other operating expense	918,740	917,342
Total Expenditure	**4,429,076**	**4,026,423**
Operating (loss)/profit before income tax	**1,434,493**	**1,048,526**
Income tax (expense)/ credit	(344,910)	(82,528)
Net (loss)/ Profit for the year after Income Tax	**1,089,583**	**965,998**

Slipway and shipyard revenue increased by $754,773 (15%) in 2013. This mainly contributed to the increased net profit of $1,089,583 in 2013 compared to $956,998 in 2012. The Company declared and paid a dividend of $482,999 in 2013 compared to $375,310 in 2012.

4.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Current Assets		
Cash and Cash Equivalent	3,682,551	2,802,458
Trade Receivables	563,877	469,882
Inventories	88,722	79,481
Prepayments and other assets	131,695	98,009
Tax Receivable	55,860	27,362
Total Current Assets	**4,522,705**	**3,477,192**
Non - Current Assets		
Property, Plant and Equipment	5,702,830	6,007,848
Deferred Tax Assets	59,156	32,119
Intangible Assets	7,433	8,770
Held to Maturity Financial Assets	0	58,330
Total Non –Current Assets	**5,769,419**	**6,107,067**
Total Assets	**10,292,124**	**9,584,259**
Current Liabilities		
Trade Payables and Accruals	1,014,034	616,118
Interest Bearing Debt	276,182	272,172
Provisions	41,995	66,796
Total Current Liabilities	**1,332,211**	**955,086**
Non-Current Liabilities		
Interest Bearing Debt	1,672,434	1,948,278
Total Non-Current Liabilities	**1,672,434**	**1,948,278**
Total Liabilities	**3,004,645**	**2,903,364**
Net Assets	**7,287,479**	**6,680,895**
Equity		
Share Capital	7,662,228	7,662,228
Accumulated Losses	(374,749)	(981,333)
Total Equity	**7,287,479**	**6,680,895**

Net assets increased by $606,584 (9%) in 2013 compared to 2012. This was mainly due to the increase in cash and cash equivalents by $880,093 (31%).

PART B – CONTROL ISSUES

4.4 Deferred tax asset

The audit noted that the Tax Fixed Asset Register (FAR) cost of property, plant and equipment does not agree to the Accounts FAR. There has been a recurring variance of $124,642. Tax FAR is overstated.

	Accounting FAR	TAX FAR	Difference
Asset cost	11,848,526	11,973,168	124,642

There is increased risk that deferred tax asset balance is misstated at balance date.

Recommendation

Management should update and reconcile the tax fixed asset register before it lodges its company income tax return with Fiji Revenue Customs Authority for the financial year ended December 2013.

Management comment

Management will carry out a reconciliation to rectify the difference in tax FAR before the annual tax returns are lodged for 2013. However, it should be noted that these differences are being carried forward from previous years to 2006 and lack of supporting documentation are hindering the reconciliations and rectification process.

4.5 Inventory costing

Variances were noted in inventory costing for items AS033 and AS035 (Metal sheets). One of the primary errors, common with most metal sheets, is due to the company receiving metal sheet items in "square meters" while disbursements are made in "sheets". This distorted the unit costs recorded for the items.

The lack of regular review of inventory costing could result in significant misstatements in inventory balances.

Recommendation

Management should frequently review its inventory costing to ensure units cost of inventory items are properly stated.

Management comment

The management takes note of the comments in the report. The company has been procuring steel plates (metal sheets) in sheets and charging to jobs in square meters. However, as of February 2014, the company has rectified the variance in cost per unit and has adopted purchasing and issuing of metal sheets in square meters. Hence unit prices won't change as there will be no conversion from sheets to square meters.

4.6 Fixed assets

A board of survey was conducted in 2013. However, audit noted that items that were not physically present were not rectified in the Fixed Asset Register (FAR). The FAR continued to have items that did not physically exist.

Furthermore, the description in the FAR is very vague as it does not give any descriptive statement on the type of building and the cost associated with the building. It was noted that when the initial merger of FSHIL incurred, there was no proper procedure put in place for setting up the FAR and only the cost of the building through source documents were included.

Not being able to reconcile physical items to the FAR could result in inability to ascertain correct FAR balance at balance date. Items in FAR with carrying amount may not be physically present hence overstating fixed asset written down value at year end.

Recommendation

Management should put forward a proposal to the board to carry out a proper and thorough physical verification of property, plant and equipment and have assets not physically verified to be written off from the FAR reconciling with the physical assets.

Management comment

Management has already undertaken the extensive Board of Survey in 2013 and identified anomalies. In order the cushion the financial impact of writing off all assets that were not physically present, management applied accelerated depreciation to ensure all items get fully written down by December 2013. The fundamental problem emanates from the days of acquisition of FSHIL when the FAR was not properly established. Now that these items have no financial impact of the books due to zero written down value, management will seek Board endorsement for disposal of these items from FAR in 2014.

SECTION 5: FIJI DEVELOPMENT BANK

Programme Statement

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

5.1 Audit Opinion 2014

The audit of the consolidated financial statements of the Fiji Development Bank and its subsidiary for the year ended 30 June 2014 resulted in the issue of an unqualified audit report.

5.2 Abridged Statement of Comprehensive Income

For the year ended 30 June	Consolidated		The Bank	
	2014 ($)	2013 ($)	2014 ($)	2013 ($)
Income				
Interest from Loans	25,539,281	27,325,366	25,538,182	27,324,273
Fees	3,871,188	5,228,266	3,871,188	5,228,266
Other Income	2,941,798	4,109,262	2,941,798	3,959,263
Total Income	**32,352,267**	**36,662,894**	**32,351,168**	**36,511,802**
Expenses				
Interest and other borrowings expenses	6,329,915	8,673,545	6,329,915	8,673,545
Operating expenses	3,817,267	3,537,516	3,730,717	3,459,889

For the year ended 30 June	Consolidated		The Bank	
	2014 ($)	2013 ($)	2014 ($)	2013 ($)
Employee costs	6,816,824	6,370,719	6,816,824	6,370,719
Total Expenses	**16,964,006**	**18,581,780**	**16,877,456**	**18,504.53**
Operating profit before allowances	**15,388,261**	**18,081,114**	**15,473,712**	**18,007,650**
Allowances for credit impairment	8,381,870	9,386,015	8,381,870	9,386,015
Impairment for Land Held for resale	42,581	---	42,581	---
Allowance for interest and Fees	2,162,067	4,487,010	2,162,067	4,487,010
Operating profit before income tax expense	**4,801,743**	**4,208,089**	**4,887,194**	**4,134,625**
Income tax expense	---	(14,693)	---	---
Other comprehensive income	---	1,347,729	---	1,347,729
Operating profit after income tax	**4,801,743**	**5,541,125**	**4,887,194**	**5,482,354**

The Bank's consolidated operating profit after tax for the year ended 30 June 2014 was $4,801,743 compared to $5,541,125 in 2013. This was attributed to the decline in income received from interest from loan by $1,786,085 (7%), reduction in fees by $1,357,078 (26%) and other income by $1,167,464 or 28% compared to the year 2013.

Interest and other borrowing expenses decreased by $2,343,630 (27%). Operating expenses increased by $279,751 (8%) while employee cost increased by $446,105 or 7%. The increase in employee cost resulted from a job evaluation exercise conducted in 2012 which was paid out in two phases in July and August 2013 with bonus payment paid out in the same period.

5.3 Abridged Statement of Financial Position

For the year ended 30 June	Consolidated		The Bank	
	2014 ($)	2013 ($)	2014 ($)	2013 ($)
Assets				
Cash and Cash Equivalents	50,056,907	42,217,806	50,039,552	42,200,367
Loans and advances	265,204,855	276,945,947	265,204,855	276,945,947
Investments	15,001	15,001	35,001	35,001
Investment Held to Maturity	2,028,472	2,028,121	2,000,000	2,000,000
Land held for resale	---	42,581	---	42,581
Property, plant and equipment	15,812,483	15,432,303	15,812,483	15,432,303
Intangibles	63,890	40,524	63,890	40,524
Other debtors	1,935,609	1,925,290	1,587,754	1,578,089
Receivable due from subsidiary	---	---	323,932	199,097
Total Assets	**335,117,217**	**338,647,573**	**335,067,467**	**338,473,909**
Liabilities				
Bonds - Held-to-maturity	125,451,099	140,509,882	125,451,099	140,509,882
Short term borrowings	72,559,476	64,450,752	72,559,476	64,450,752
Employee entitlements	1,065,998	1,579,182	1,065,998	1,579,182
Deferred income	1,289,784	1,638,445	1,289,784	1,638,445
Accounts payable and accruals	2,431,659	2,933,829	2,427,037	2,890,744
Other liabilities	5,819,490	5,837,515	5,819,490	5,837,515
Total Liabilities	**208,617,506**	**216,949,605**	**208,612,884**	**216,906,520**
Net Assets	**126,499,711**	**121,697,968**	**126,454,583**	**121,567,389**

For the year ended 30 June	Consolidated		The Bank	
	2014 ($)	2013 ($)	2014 ($)	2013 ($)
Equity				
Capital	56,050,636	56,050,636	56,050,636	56,050,636
Reserves	12,535,291	12,535,291	12,535,291	12,535,291
Accumulated Fund	57,913,784	53,112,041	57,868,656	52,981,462
Total Equity	**126,499,711**	**121,697,968**	**126,454,583**	**121,567,389**

Total consolidated assets decreased by $3,530,356 or 1% compared to 2013 as a result of a decrease in loans and advances by $11,741,092 or 4%. There were increases recorded for cash and cash equivalents by $7,839,101 or 19%, property, plant and equipment increased by $380,180 or 2%, and intangibles increased by $23,366 or 58%.

Total consolidated liabilities decreased by $8,332,099 or 4% being attributed to decrease in Bonds held to maturity by $15,058,783 or 11%, employee entitlement by $513,184 or 32%, deferred income by $348,661 or 21%, accounts payable and accruals by $502,170 or 17%.

SECTION 6: FIJI PUBLIC TRUSTEE CORPORATION LIMITED

Programme Statement

The Corporation was established through the Fiji Public Trustee Corporation Act 2006. The principal activity of the Corporation is to act as a custodian and provide administrative services to estates of those persons who are deceased, of unsound mind or persons incapable of conducting their own affairs.

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PART A – FINANCIAL INFORMATION

6.1 Audit Opinion

The audit of the financial statements of the Fiji Public Trustee Corporation Limited for the year ended 31 December 2013 resulted in the issue of an unqualified audit report.

6.2 Abridged Statement of Financial Performance

Year ended 31 December	2013 ($)	2012 ($)
Income		
Fees	655,664	683,897
Interest Income	408,498	435,657
Aid	2,915	33,075
Other Revenue	126,500	127,088
TOTAL INCOME	**1,193,577**	**1,279,717**
Expenditure		
General and Administration Expenses	263,884	281,027
Selling Expenses	5,633	12,340
Staff and Employee Costs	472,945	380,287
TOTAL EXPENDITURE	**742,462**	**673,654**
OPERATING PROFIT BEFORE INCOME TAX	**451,115**	**606,063**
Income Tax Expense	97,327	132,761
NET OPERATING PROFIT AFTER TAX	**353,788**	**473,302**

The Corporation recorded a net operating profit after tax of $353,788 in 2013 compared to $473,302 in 2012; a decrease of $119,514 or 25%. This was mainly attributed to an increase in staff and employee cost by $92,658. There were increases in allowances and accrued bonus for the staffs of the Corporation which contributed to the decline in profit.

6.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Assets		
Cash and Cash Equivalents	2,015,587	2,141,302
Trade and Other Receivables	692,215	349,372
Other Current Assets	287,108	311,826
Deferred Tax Asset	1,856	3,313
Financial Assets	4,864,630	4,864,630
Property, Plant and Equipment	1,133,717	931,709
TOTAL ASSETS	**8,995,113**	**8,602,152**
Liabilities		
Deferred Revenue	-	2,915
Trade and Other Payables	127,554	97,424
Provisions	51,892	41,236
TOTAL LIABILITIES	**179,446**	**141,575**
NET ASSETS	**8,815,667**	**8,460,577**
Shareholders' Equity		
Share Capital	2	2
Share Premium Reserve	99,998	99,998
Capital Reserve	5,690,897	5,689,595
Retained Earnings	3,024,770	2,670,982
TOTAL SHAREHOLDERS' EQUITY	**8,815,667**	**8,460,577**

The corporation's net asset increased by $355,090 or 4.2% in 2013 compared to 2012. This was mainly attributed to the increases in trade debtors and other receivables by $342,843 (98%) and property, plant and equipment which increased by $202,008 or 22%.

SECTION 7: PACIFIC FISHING COMPANY LIMITED

Programme Statement

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

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

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PART A – FINANCIAL INFORMATION

7.1 Audit Opinion

The audit of the financial statements of the Pacific Fishing Company Limited for the year ended 31 December 2013 resulted in the issue of an unqualified audit report.

7.2 Abridged Statement of Financial Performance

Year ended 31 December	2013 ($)	2012 ($)
Income		
Sales	30,495,018	24,249,891
Other Income	1,805,588	681,527
TOTAL INCOME	**32,300,606**	**24,931,418**
Expenditure		
Raw materials and consumables used	9,149,700	7,279,495
Changes in inventories of raw materials and finished goods	(376,022)	200,177
Distribution costs	505,535	362,463
Staff and employee benefits	7,682,689	6,249,315
Depreciation and amortization expense	1,712,999	2,015,766
Finance costs	320,477	340,435
Other operating expense	10,648,463	10,161,973

Year ended 31 December	2013 ($)	2012 ($)
TOTAL EXPENDITURE	**29,643,841**	**26,609,624**
OPERATING PROFIT/(LOSS) BEFORE INCOME TAX	**2,656,765**	**(1,678,206)**
Income tax (expense)/credit	(508,263)	1,128,470
NET PROFIT/(LOSS) AFTER INCOME TAX	**2,148,502**	**(549,736)**

The company recorded a net profit of $2,148,502 in 2013 compared to a net loss of $549,736 in 2012. This was due to the increases in sales and other income by 26% and 165% respectively.

7.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Assets		
Cash at bank and on hand	643,101	7,557
Trade receivables	2,382,241	3,558,620
Inventories	2,708,235	1,765,105
Prepayments and other receivables	2,196,460	2,131,221
Property, plant and equipment	20,623,427	20,194,388
Deferred tax asset	856,144	1,364,407
TOTAL ASSETS	**29,409,608**	**29,021,298**
Liabilities		
Interest bearing borrowings	5,129,657	5,132,598
Trade and other payables	1,606,818	3,132,805
Provisions	87,359	61,269
Deferred income	4,882,363	5,139,717
TOTAL LIABILITIES	**11,706,197**	**13,466,389**
NET ASSETS	**17,703,411**	**15,554,909**
Accumulated Fund		
Share Capital	14,800,000	14,800,000
Retained Profits	2,903,411	754,909
NET ACCUMULATED FUND	**17,703,411**	**15,554,909**

There was an improvement in PAFCO's net assets in 2013. Net assets increased by $2,148,501 or 14% in 2013 compared to 2012. This was mainly attributed to the decrease in the total liabilities by $1,769,191 or 13% which resulted from the Directors resolving to write back long outstanding dividend payable of $445,000.

PART B – CONTROL ISSUES

7.4 Deferred income

It is imperative that amount in the balance sheet is supported with a listing and a reconciliation.

Audit noted a variance of $162,070 between the costs of the AIDAB grant assets as per fixed assets schedule and general ledger and the balance as per Financial Statements. Audit also noted variances in the accumulated provision of the grant assets. Refer to Table 7.1 for details.

Table 7.1 Details of variance of the cost of AIDAB granted assets and accumulated provision between the fixed assets schedule/general ledger and financial statements

FAR No.	Balance as per fixed assets schedule and general ledger	Balance as per Financial Statements	Variance ($)
Cost of AIDAB granted assets	13,374,380	13,536,450	(162,070)
Accumulated Provision - amortisation for grant assets	8,492,014	8,654,086	(162,072)

Discussion with the Financial Controller revealed that no supporting documents are available to substantiate the correct balance of the cost of AIDAB granted assets.

The above variance increases the risk of incorrect financial reporting of deferred revenue grant in the financial statements.

Recommendation

The Company should ensure that disclosures made in the financial statements are adequately supported with documents and listings.

Management's Comments

Requesting OAG to assist PAFCO in getting the correct figure. This grant was given to PAFCO in 1992.

Further OAG Comments

The above figure cannot be provided by OAG.

7.5 Overspending during the 50th anniversary celebration

Effective budget planning starts with supplying sufficient and correct information for creating detailed and accurate budgets and cash flow forecasts, as well as understanding the wider impact of those forecasts.

Review of the Board Minutes[1] revealed that the Board approved a budget of $17,500 for the 50th Anniversary Celebration.

Audit noted that the Company had spent $11,447.05 more than the approved amount of $17,500. Refer to Table 7.2 for details

Table 7.2: 50th Celebration expenditure approved against actual spending

Details of Expenditure	Breakdown	Total Amount ($)
Approved by the Board		**17,500.00**
Expenditure incurred by the Company		
Food Employees	8,500.00	
Paid for 100 Pieces of Sulu	5,000.00	
PA Approval	100.00	
Hire of Roofing Iron	225.00	

[1] Minutes of Board Meeting on 4 October 2013

Details of Expenditure	Breakdown	Total Amount ($)
Hire of caterers	1,750.00	
Koromakawa Food	5,530.80	
Bamboo	300.00	
String for the Band	75.00	
Transport of Goods from Suva	200.00	
Grog	100.00	
Transporting of Marquee – Return	5,161.00	
Duty for Fish	171.90	
Vasiti's Ticket	70.00	
Ingredient for curry	19.35	
Band	700.00	
Tin	70.00	
Boys taking chairs	100.00	
Hire of Table	120.00	
Decoration	150.00	
Hire of Mat	50.00	
Ratus ticket	55.00	
Chair	279.00	
Hire of MH Truck	180.00	
Red Cross	40.00	
Total Amount Spent		**28,947.05**
Overspent		**11,447.05**

No evidence exists to indicate that the overspending was authorised.

The anomaly indicates lack of controls in the use of monies to finance the celebration.

Recommendation

The Company should ensure that prior approval is obtained from the Board before incurring additional expenditures.

Management Comments

The company will obtain prior approval from the Board before incurring such expenditures. In this case, the Board only approved for Sulu and meals for workers. Other cost such as set up, caterers, bands, meal for Guest, etc. were missed out.

7.6 Financial manual

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

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

Audit noted that the company does not have a Finance Manual.

In absence of the Finance Manual, audit was not able to ensure if relevant internal controls in financial operations of the company are practised. Additionally, risk of abuse and mismanagement of company's cash and other assets is high.

Recommendation

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

Management's Comment

FC with the help of CEO will draft a Finance Manual and submit it to the Board before the end of year 2014.

Further OAG Comments

This issue is on-going from previous years and needs immediate attention of the Management to address it.

SECTION 8: FIJI BROADCASTING CORPORATION LIMITED

Programme Statement

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

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

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PART A – FINANCIAL INFORMATION

8.1 Audit Opinion 2012

The audit of the financial statements of the Fiji Broadcasting Corporation Limited for the year ended 31 December 2012 resulted in the issue of a qualified audit report. The qualification is as follow:

- As explained in note 3(p) to the financial statements, the company accounts for all government grants received after 1 January 2010 are treated as capital contribution. This is a departure from International Accounting Standard (IAS) 20 Accounting for Government Grants and Disclosure of Government Assistance which requires government grants provided to compensate the Company for expenses incurred to be recognized in profit or loss as other income on a systematic basis in the same period that the expenses are recognized. The Company's records indicate that had the Company complied with IAS 20 the impact would be to reduce loss before tax and capital contribution by (2011: $2,530,434 and 2012: $2,566,810) and increase other income by (2011: $2,530,434 and 2012: $2,566,810).

8.2 Abridged Statement of Financial Performance

Items	2012 ($)	2011 ($)
Income		
Income from Advertising, Programs and Special Events	6,428,631	3,663,514
Other Income	258,711	153,494
Total Income	**6,687,342**	**3,817,008**
Expenditure		
Administration and Other Operating Expenses	10,588,302	4,402,945
Marketing Expenses	1,078,872	447,238
Finance Costs	2,012,950	30,690
Total Expenditure	**13,680,124**	**4,880,873**
Operating loss before income tax	**6,992,782**	**1,063,865**
Income tax expense	110,269	73,724
Net loss for the year after income tax	**7,103,051**	**1,137,589**

The Company recorded a net loss after income tax of $7,103,051 in 2012 compared to a net loss after income tax of $1,137,589 in 2011. The increase in net loss was mainly attributed to the increase in depreciation expenses from the upgrading works relating to the launching of the company's television services which were still work in progress in 2011. There were also increases in program expenses, motor vehicle expenses, salaries and wages and finance costs.

8.3 Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2012 ($)	2011 ($)
Current Assets		
Cash and Cash Equivalent	161,181	319,975
Restricted Cash	0	1,008,375
Trade and Other Receivables	1,377,429	1,162,232
Other Current Assets	1,242,228	1,205,308
Total Current Assets	**2,780,838**	**3,695,890**
Non-Current Assets		
Property, Plant & Equipment	21,517,376	23,942,724
Deferred Tax Asset	0	110,269
Total Non-Current Assets	**21,517,376**	**24,052,993**
Total Assets	**24,298,214**	**27,748,883**
Current Liabilities		
Trade & Other Payable	979,437	847,178
Interest Bearing Borrowings	1,435,601	0
Other Current Liabilities	125,385	92,498
Total Current Liabilities	**2,540,423**	**939,676**
Non-Current Liabilities		
Interest Bearing Borrowings	19,190,672	19,897,803
Deferred Income	217,232	25,276
Total Non-Current Liabilities	**19,407,904**	**19,923,079**
Total Liabilities	**21,948,327**	**20,862,755**
Net Assets	**2,349,887**	**6,886,128**
Shareholder's Equity		

As at 31 December	2012 ($)	2011 ($)
Share Capital	200,002	200,002
Share Premium Reserve	3,913,355	3,913,355
Capital Contribution	7,683,911	5,117,101
Accumulated Losses	(9,447,381)	(2,344,330)
Total Shareholder's Equity	**2,349,887**	**6,886,128**

Net assets decreased by $4,536,241 or 65.8% in 2012 compared to 2011 mainly due to the decrease in Property, Plant and Equipment (PPE) as a result of increase in depreciation of those PPE which were still Work in Progress in 2011. There is also an increase in interest bearing borrowings by $728,470 in 2012.

8.4 Audit Opinion 2013

The audit of the financial statements of the Fiji Broadcasting Corporation Limited for the year ended 31 December 2013 resulted in the issue of a qualified audit report. The qualification is as follow:

- As explained in note 3(p) to the financial statements, the company accounts for all government grants received after 1 January 2010 as capital contribution. This is a departure from IAS 20 Accounting for Government Grants and Disclosure of Government Assistance which requires government grants provided to compensate the Company for expenses incurred to be recognized in profit or loss as other income on a systematic basis in the same period that the expenses are recognized. The Company's records indicate that had the Company complied with IAS 20 the impact would be to reduce loss before tax and capital contribution by (2012: $2,566,810 and 2013: $2,910,000) and increase other income by (2012: $2,566,810 and 2013: $2,910,000).

8.5 Abridged Statement of Financial Performance

Items	2013 ($)	2012 ($)
Income		
Income from Advertising, Programs and Special Events	8,042,530	6,428,631
Other Income	408,238	258,711
Total Income	**8,450,768**	**6,687,342**
Expenditure		
Administration and Other Operating Expenses	11,270,219	10,588,302
Marketing Expenses	1,351,553	1,078,872
Finance Costs	1,431,770	2,012,950
Total Expenditure	**14,053,542**	**13,680,124**
Operating loss before income tax	**(5,602,774)**	**(6,992,782)**
Income tax expense	0	110,269
Net loss for the year after income tax	**(5,602,774)**	**(7,103,051)**

Total income increased by $1,763,426 or 26% due to increases in income from advertising, programs and special events. This contributed to the decline in net loss by $1,500,277 or 21%.

8.6 Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2013 ($)	2012 ($)
Current Assets		
Cash and Cash Equivalent	276,075	161,181
Trade and Other Receivables	1,919,421	1,377,429
Held to maturity term deposit	1,336,773	336,773
Other Current Assets	615,984	905,455
Total Current Assets	**4,148,253**	**2,780,838**
Non-Current Assets		
Property, Plant & Equipment	18,226,196	21,517,376
Total Non-Current Assets	**18,226,196**	**21,517,376**
Total Assets	**22,374,449**	**24,298,214**
Current Liabilities		
Trade & Other Payable	1,569,998	979,437
Interest Bearing Borrowings	1,418,757	1,435,601
Other Current Liabilities	133,572	125,385
Total Current Liabilities	**3,122,327**	**2,540,423**
Non-Current Liabilities		
Interest Bearing Borrowings	19,449,421	19,190,672
Deferred Income	145,588	217,232
Total Non-Current Liabilities	**19,595,009**	**19,407,904**
Total Liabilities	**22,717,336**	**21,948,327**
Net Assets	**(342,887)**	**2,349,887**
Shareholder's Equity		
Share Capital	200,002	200,002
Share Premium Reserve	3,913,355	3,913,355
Capital Contribution	10,593,911	7,683,911
Accumulated Losses	(15,050,155)	(9,447,381)
Total Shareholder's Equity	**(342,887)**	**2,349,887**

Net assets decreased by $2,692,774 or 114.6% in 2013 compared to 2012 mainly due to the decrease in Property, Plant and Equipment by $3,291,180 as a result of depreciation. Interest bearing borrowings increased by $728,470 in 2013.

PART B – CONTROL ISSUES

8.7 Government grant accounting not in accordance with IAS 20

Fiji Broadcasting Corporations Limited (FBCL) accounts for all government grants received post 2010 as capital contribution based on a circular issued by the government.

IAS 20.3 defines government grants as assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. The government grants received by FBCL meet the definition of a grant in that they constitute government assistance provided to enable FBCL to broadcast in the outer stations and local programmes.

IAS 20.12 specifically requires that government grants are recognised as income over the periods in which the related costs which they are intended to compensate are recognised, on a systematic basis.

Government grants related to assets, are required to be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset and released to profit or loss as the underlying asset is depreciated or amortised (IAS 20.24-27).

The Government is providing this funding to enable Fiji Broadcasting Corporation of Fiji to provide public service broadcasting and to promote local programs on both radio and television. The Government is providing grants in its capacity as the Government (to provide public service broadcasting in Fiji) and not as the shareholder of FBCL.

An uncorrected misstatement was included to show the impact of this.

By following the Government's circular requiring FBCL to treat the government grant received as a capital contribution, FBCL is not in compliance with IAS 20.

Recommendation

Management should liaise with the Ministry concerned and correct the accounting treatment of government grants so that it is in compliance with IAS 20.

Management Comment

During the final stages of the audit of 2012 & 2013 Financial Statements, meeting was held between representatives of Office of Auditor General and the auditors' KPMG at FBC to discuss the above matter. OAG had also provided FBC with a letter requesting that government grant be treated in compliance with the IFRS standards which was also agreed by KPMG.

FBC provided copies of memo that was sent by Ministry of Public Enterprises together with copies of the cabinet decision which directs all State owned Enterprises to comply with the decision that government grant is to be treated as additional capital injection into the entity instead of revenue.

However, upon receipt of the letter from OAG, FBC wrote to the MPE seeking further clarifications on the request made by the auditors.

No updates have been received from MPE.

8.8 Business efficiency and viability

Audit noted the following going concern issues as raised by the Directors in their report to the financials and Note 3 (c) accompanying the accounts:

- Shareholder's funds had a deficit of $342,887 in 2013[1].
- The company has been incurring losses for the last four years (2010: $516,943, 2011: $1,137,589, 2012: $7,103,051, 2013: $5,602,774).

Notes 3 (c) to the accounts has also explained the situation if for any reason the company is unable to continue as a going concern, it could have an impact on the company's ability to realise assets at

[1] the company's negative cash flows from operating activities of $1,319,736 would be resolved if the IAS 20 is complied with to recognise Government contribution as (grant) revenue.

their recognized values to meet liabilities in the normal course of business at the amounts stated in the financial statements.

The deficit of $342,887 for the shareholder's equity in the Statement of Financial position indicate that the company does not have enough assets ($22.4 million) to match all the company's borrowing to external parties (liabilities) totalling $22.7 million. The major component of the liability is Interest bearing borrowings of $19.4 million in 2013 is guaranteed by the Government of Fiji.

In addition, the losses reported for the past 4 years demonstrate high operating costs incurred especially as the result of the expansion of the company into television business and the company's inability to generate adequate revenue in addition to the government contribution to finance its business costs.

The company may also need some expert review of its business operations to identify areas that may need to be streamlined to reduce its business costs.

Recommendation

The Company should review its current business operations and adopt a strategy to improve on the issues highlighted above.

Management Comments

It is to be noted that there exists a Public Service Broadcast Contract for Radio and for FBC TV. The current contract expires in 2016.

The contract clearly states the amount of money that is to be paid by the government to FBC for supply of radio and free to air television service. All the services to be performed shall be for all intents and purpose to entertain, inform and educate the public with the emphasis on income generation to return profit to the government on its investment and repayment of start-up moneys borrowed to ensure maintenance of high quality of programming, transmission and public service broadcast by the government-owned corporation.

There also exists a government guaranteed loan that was taken entirely to finance the upgrade of radio and TV project and has an unexpired term of approximately 10 years. Since this project involved acquisition of radio and TV equipment, there also exists high depreciation and repairs and maintenance costs associated with it and it was forecasted that FBC will incur losses due to high costs associated with operating the TV and radio station at least for few years after completion of the upgrade project.

The emphasis has always been on the advertising arm of TV and Radio stations and since these associated costs will reduce year after year, FBC's equity as well as profitability levels will gradually improve in years to come.
Shareholders' Funds had a deficit of $342,887 in 2013 because of high depreciation costs which started after the completion of the upgrade project from financial year 2012. The current ratio is positive and progress has been noted as compared to previous year (2012).

The deficit shareholders equity value will improve in years to come as the WDV of fixed assets will decrease and so does the depreciation expenses.

There also exists cabinet decision which directs all State owned Enterprises to comply with the decision that government grant is to be treated as additional capital injection into the entity instead of revenue.

The whole logistics behind the government guaranteed loan was that FBC will incur losses for certain years and with reducing loan commitment, depreciation and programming expenses; profits will be recorded in years to come.

Apart from this, the company has an operational/ capex budget with it clearly monitors on a timely manner.

SECTION 9: FIJI ELECTRICITY AUTHORITY

Programme Statement

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

9.1 Audit Opinion

The audit of the financial statements of the Fiji Electricity Authority for the year ended 31 December 2013 resulted in the issue of an unqualified audit report.

9.2 Statement of Comprehensive Income

Year Ended 31 December	2013 $'000	2012 $'000
Revenue		
Operating revenue – sale of electricity	292,916	290,451
Other operating income	4,983	5,852
Total Revenue	**297,899**	**296,303**
Expenditure		
Personnel expenses	17,960	17,377
Fuel costs	122,606	105,136
Lease and rent expenses	9,334	1,375
Electricity purchases	1,319	10,045
Depreciation	36,312	34,522
Amortisation of intangible assets	434	522
Cyclone Evan – Restoration costs	-	5,013
Losses due to flooding	-	1,314
Other operating expenses	48,776	42,788
Total Expenditure	**236,741**	**218,092**
Profit before Finance Costs & Income Tax	**61,158**	**78,211**

Year Ended 31 December	2013 $'000	2012 $'000
Finance costs	20,134	16,375
Operating profit before income tax	**41,024**	**61,836**
Income tax (expense)/ benefit	(8,443)	13,509
Net profit for the year after income tax	**32,581**	**75,345**

The Authority recorded a reduction in net profit after tax of $42.7 million or 57% in 2013 compared to 2012. This was attributed mainly to the increase in operating expenditure, specifically, fuel costs. The income tax expense charged in 2013 also contributed to the reduced net profit at year end.

9.3 Abridged Statement of Financial Position

As at 31 December	2013 $'000	2012 $'000
Assets		
Cash and cash equivalents	45,308	28,781
Held to maturity financial assets	11,115	11,883
Receivables and prepayments	39,255	33,732
Property, plant and equipment	917,734	914,715
Other current assets	18,686	18,454
Other non- current assets	10,160	17,720
Total Assets	**1,042,258**	**1,031,482**
Liabilities		
Interest bearing borrowings	303,119	328,778
Deferred tax liabilities	43,064	42,181
Other current liabilities	38,404	43,206
Other non-current liabilities	69,730	65,423
Total Liabilities	**454,317**	**479,588**
Net Assets	**587,941**	**551,894**
Capital and Reserves		
Retained profits	511,337	478,756
Capital contribution	76,604	73,138
Total Capital and Reserves	**587,941**	**551,894**

Net assets increased by $36 million or 7% in 2013 compared to 2012 mainly due to the increase in total assets, specifically cash and cash equivalent. The reduction in interest bearing borrowings also contributed to the increased net assets.

SECTION 10: POST FIJI LIMITED

Programme Statement

Post Fiji Ltd commenced its operations on 1 July 1996 as a Government Commercial Company and is registered and incorporated under the Companies Act as a private company with the shareholding wholly owned by the Government. The company is managed by a Board of Directors, appointed by the Government.

The core activities of the company include message communication in letters and distributing courier and parcel items. It also provides stamps, financial transactions, telegram services, data processing and mail production services. Over the years, the company has also diversified its revenue earning activities to include Post Shops and agency services.

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PART A – FINANCIAL INFORMATION

10.1 Audit Opinion 2013

The audit of the financial statements of the Post Fiji Limited for the year ended 31 December 2013 resulted in the issue of an unqualified audit report.

10.2 Abridged Statement of Financial Performance

Items	2013 ($)	2012 ($)
Income		
Sales Revenue	8,169,478	8,351,043
Postage, stamp and other sales	5,316,823	4,257,855
Rental – postal box and bag	1,869,646	2,260,395
Agency commission and other services	13,570,290	8,131,706
Other Operating Revenue	1,337,057	1,510,981
Finance Income	50,194	68,915

Items	2013 ($)	2012 ($)
Total Income	**30,313,488**	**24,580,895**
Expenditure		
Cost of Sales	6,840,335	6,988,931
Depreciation and Amortisation Expenses	1,300,953	1,442,090
Employee Benefits Expense	7,307,347	6,548,413
Administration and Operating Expenses	13,084,012	8,930,652
Selling, Marketing and Distribution Expenses	236,420	235,417
Other Operating Expenses	17,675	20,781
Finance Costs	103811	39,793
Total Expenditure	**28,890,553**	**24,206,077**
Operating (loss)/profit before income tax	**1,422,935**	**374,818**
Income tax benefit/(expense)	(263,545)	(140,967)
Net (loss)/ Profit for the year after Income Tax	**1,159,390**	**233,851**

The Company recorded a net profit after income tax of $1,159,390 in 2013. The improvement in the company's operation was mainly attributed to the increase in total revenue by $5,732,593.

10.3 Abridged Statement of Financial Position – Balance Sheet

As at 31 December	2013 ($)	2012 ($)
Current Assets		
Cash and Cash Equivalent	4,322,678	2,498,079
Trade and Other Receivables	9,335,078	6,607,497
Other Current Assets	7,513,677	6,170,030
Total Current Assets	**21,171,433**	**15,275,606**
Non-Current Assets		
Property, Plant & Equipment	10,300,271	10,645,562
Other Non-Current Asset	748,348	1,061,300
Total Non-Current Assets	**11,048,619**	**11,706,862**
Total Assets	**32,220,052**	**26,982,468**
Current Liabilities		
Trade & Other Payable	15,889,297	10,595,434
Other Current Liabilities	712,916	1,915,519
Total Current Liabilities	**16,602,213**	**12,510,953**
Non-Current Liabilities		
Trade and Other Payables	1,974,449	1,782,651
Other Non-Current Liabilities	937,637	1,025,576
Total Non-Current Liabilities	**2,912,086**	**2,808,227**
Total Liabilities	**19,514,299**	**15,319,180**
Net Assets	**12,705,753**	**11,663,288**
Shareholder's Equity		
Share Capital	5,600,000	5,600,000
Accumulated Profits	7,105,753	6,063,288
Total Shareholder's Equity	**12,705,753**	**11,663,288**

Net assets increased by $1,042,465 or 9% in 2013 compared to 2012 due to the net profit realized in 2013.

PART B – CONTROL ISSUES

10.4 Improvement in International Receivable and Payable Reconciliations

The monthly balance sheet reconciliations are not reviewed by an independent reviewer.

The reconciliation is prepared using the values from the three quarters (actual/verified by the debtor) plus an estimation of the 4th quarter whereby CN 56 is prepared from letter bills received for the month end (because the books closed are at 31/12/2013). The weights are converted to SDR (Universal Postal Union rate) then converted to FJD (using IMF rate/exchange rate).

Furthermore, the audit noted that the international mail receivable and payable reconciliation did not agree to the general ledger by $179,333 at 31 December 2013.

The absence of review may result in errors or irregularities not being detected and corrected on a timely basis.

Recommendation

The Financial Controller should review all reconciliations for these balance sheet accounts and ensure that reconciling items and other anomalies are investigated and corrected on a timely basis.

Management Comment

Management takes note of the DAM report and recommendations. Management will ensure that all reconciliations are carried out diligently and verified correct by the Financial Controller. We will also rectify the variance between the international mail receivable and payable reconciliation against the general ledger and pass corrective journals.

10.5 Internal Audit function to be strengthened

The audit plan for the 2013 financial year included coverage of the 77 Post Offices, however upon inquiries with the Internal Audit Manager, audit noted the following:

- The plan was not effective as it was not carried out in its entirety. This resulted from internal audit having to conduct 'special investigations' at certain post offices.
- At some offline stations, internal audit staff would leave without finishing all of the planned audit procedures due to transportation issues.

Internal audits may not be conducted appropriately and internal control failures or areas of improvement may not have been fully identified.

Recommendations

- **The planned audits should be completed within the financial year. Any exceptions should be agreed with the Board/ Audit Committee.**
- **Where audits are not fully conducted, additional time should be scheduled to complete these audits within a short timeframe.**
- **Management may also need to consider whether the internal audit department is adequately resourced.**

Management Comment

Management takes note of the DAM report and recommendations.

Management will liaise with Internal Audit Manager to ensure that the planned audits are completed during the financial year and any exceptions to be reported immediately. However, it should also be noted that in the event of misappropriations and discrepancies, the internal audit departments gets informed of the incidents and are often requested to conduct investigations which could be quite time consuming. Hence the planned audit schedules for the year may not get quite fulfilled.

Every effort shall be made to ensure that the planned audits are carried out as scheduled.

10.6 Anti-Fraud Program and Corporate Governance

Review of the Corporate Governance and Anti-Fraud program and control revealed the following areas for improvement:

- Currently there is no structured fraud risk assessment in place.
- Audit noted that the internal audit reports provided are general in nature.
- No training was held in the rural post offices where most losses/theft and fraud occur.
- CEO position has been vacant since 2011. Currently the board chairman is performing the role of CEO.
- There is no policy stating the minimum numbers of directors as directors are chosen by Ministry of Public Enterprise. The Board of the company is comprised of the minimum number of 2 directors and 2 Board reps i.e. from the Ministry of Finance and Ministry of Public Enterprise.
- There should have been 6 board meetings during the year, however, audit noted there were only 5 board meetings held during the year.

The lack of programs/ controls/ policies increase the risk of errors and irregularities being undetected and being communicated to those charged with governance. Additionally, appropriate mitigating controls may not be in place to address fraud risk areas.

Recommendation

Management and those charged with governance should implement the controls/ programs/ policies to address the areas of improvement noted in our observations.

Management Comment

Your comments are noted and some observations are made below.

The review of our controls and policies is on-going and more attention will be given in order to mitigate and reduce the risk of fraud from taking place.

Our internal audit will work towards improving the contents of their audit reports and to be more specific on their findings.

Our HR & Training shall conduct more training to help eradicate fraud particularly in the rural areas.

The Board has already brought this matter to the attention of our Ministry and we hope to have an update on this at the next Board meeting.

Although there were five board meetings held during the year, the Board was able to cover the activities of the financial year in these meetings.

UNRESOLVED PRIOR YEAR ISSUES

10.7 Journal entries with supporting documents

Audit noted the following discrepancies:

- Instances of double posting of payments which arise from staff having insufficient accounting knowledge to authorize journal entries;
- In some instances, supporting documents to the manual journals passed were not attached.
- A number of journal entries were not independently reviewed by appropriate personnel.

Refer to Table 10.1 below for details of a sample of manual journals passed that lacked review and supporting documents.

Table 10.1: Manual journals passed lacking review and supporting documents

Journal Number	Description	Amount ($)	Comments
PA002	Mail, EMS, Parcels A/CC	2,999,889	No supporting documents attached
PA448	Unrealised Exchange Gain	601,000	No supporting documents attached
PJ053	Adjustment Wrong Allowance	100,000	No approval or review of this journal

These discrepancies increase the risk of errors and anomalies not being on a timely basis.

Recommendations

- **Journal entries should be prepared by the Accountant and reviewed by the Financial Controller who had sufficient accounting knowledge.**
- **Supporting documents should be attached with the journal vouchers in order to provide reasonable evidence of journal entries passed and facilitate an easier review process for the reviewer.**

Management Comment

Management takes note of the DAM report and recommendations.

Management will ensure that all journals prepared are reviewed before they are recorded in the financial systems. We will also ensure that all relevant supporting documents are provided and attached with the Journal vouchers as a reasonable evidence for the occurrence of those Journals.

10.8 Recognition of insurance claims.

At 31/12/13 Post Fiji has a total receivable of $559,313 (net of impairment provisions) relating to monies and inventories that have allegedly been stolen and are awaiting recovery from insurers. $454,863 of this relates to 2012 and prior years.

Management explained that these cases are all subject to police investigation. In some cases the police investigation has completed and the matter is awaiting (or in the process of) prosecution through the court while for others the investigation is in progress. On this basis management expect the insurer to pay the claim and have therefore booked a receivable.

In our view these amounts should be disclosed as contingent assets under IAS37 and not recorded as receivables until the insurer has confirmed in writing that they will pay the amount of the claim, as without this the recovery is not considered virtually certain.

The recognition of insurance recoverable as receivables may overstate receivables balance.

Recommendation

Audit have included this in the summary of unadjusted audit differences and recommended that management reassess their accounting for future claims.

Management Comment

Management takes note of the DAM report and recommendations.

Management is in the process of reviewing all the insurance claims that have been lodged and recorded as receivables and further consideration will be given.

10.9 Accounting for international mail, EMS and parcel receivables and payables to be improved

The accounting for international mail, EMS and parcel receivables and payables balances should be improved. Audit noted the following:

- Quarter four receivable and payable balances are confirmed by the respective countries by the seventh month of the subsequent financial year as is the universal postal union process worldwide. Accordingly, an estimate is made by management to record the receivable and payable for the fourth quarter. Audit noted Post Fiji did not maintain a system to monitor the estimate made by management against the actual quarterly balances subsequently confirmed by the respective countries. Consequently, management may not fully ascertain the accuracy of the estimate. Furthermore, the differences between the estimate and the actual are posted in the subsequent financial year.
- Audit noted that there are long outstanding balances for international mail, EMS and parcel receivables.
- Post Fiji has not made an assessment or raised a provision for international mail, EMS and parcel receivables.

There is a risk that international mail, EMS and parcel post receivables and payables balances may be misstated. Fourth quarter variances posted in the following financial year may materially misstate the international mail, EMS and parcel post receivables and payables balances, revenue and expenses.

There is a risk that these balances would increase over the years and not get receipted or paid.

Recommendations

- **Post Fiji Limited should implement systems to monitor quarterly variances between the estimate and actual balances to determine the trends and include these results in calculating the estimate at the end of the financial year. This will assist in assessing the impact of any under/over accrued on the financial statement.**
- **Specific actions should be taken to clear long outstanding receivable and payable balances before they escalate to an irrecoverable position.**
- **Post Fiji should make an assessment for provision against international mail, EMS and parcel receivables where amounts are not considered recoverable.**

Management Comment

Management takes note of the DAM report and recommendations.

Management is in the process of reviewing the international mail accounting procedures and will try improving on the estimation of fourth quarter receivables and payables. However it should be noted that the nature of this business is such that we estimate based on the activity reports received. The actual are only confirmed once the confirmations are received from the other postal administrations, which takes about 6 to 8 months.

In terms of long outstanding of the receivables and payables Post Fiji is making all the effort to have the balances reduced. It should be noted that the collection or payable amounts work on an offset basis with other postal administrations. Post Fiji Limited will also make provisions for long outstanding in 2014.

10.10 Corporate governance and finance manual to be updated

The Company does not have an up to date documented policy relating to the corporate governance framework and accounting policies and procedures.

Audit noted that the Company currently implements the 2006 Corporate Governance and Finance manuals. Changes to or new policies and procedures have not been updated in the formal document and subsequently approved by management. Accordingly, what may occur in practice may not be consistent with the policy or procedure documented in the manual.

Documentation of corporate governance and accounting policies and procedures is important for operational efficiency in the company and accounting department and for an effective system of internal control.

Recommendations

- **Management should undertake a project to review the company's corporate governance and finance manual to check if the policies and procedures included in the policy document are applicable and relevant to the Company's current operations. An updated policy and procedures manual should be formally approved by management and implemented.**

- **The policies and procedures should be comprehensive to ensure that all gaps and financial risks area appropriately addressed. This should be updated on a regular basis for changes in the business and new accounting standards.**

Management Comment

Management takes note of the DAM report and recommendations

Post Fiji Limited is in the process of changing its Post of Sales system, payroll and financial systems. The reviewed and updated finance manual needs to incorporate all the process and procedures in aligned with the new systems and their requirements. Once the systems are fully implemented in 2014, the new finance policy will be worked on and all changes incorporated with accounting standards.

10.11 Formalize doubtful debts provisioning policy

Audit noted that Post Fiji Ltd does not currently have a formal doubtful debts provisioning policy.

Management does not utilize a systematic method for the review of accounts receivable to determine the adequacy of the related allowance for doubtful accounts. Rather, a one-time review of the collectability of accounts receivable is performed at year-end based on judgment.

Lack of periodic, systematic reviews of the accounts for collectability may result in unexpected increases in the allowance and the expense.

<u>Recommendations</u>

- **Standard procedures for the periodic review of accounts receivable balance should be established and documented. The procedures should include consideration of the aging of the balance, payment history and extent of lien coverage for each account.**
- **Establishing and implementing standard review procedures will result in a more accurate estimate of the allowance for doubtful accounts and improve periodic financial reporting by providing management with a consistent method of performing the review of accounts receivable.**

<u>Management Comment</u>

Management takes note of the DAM report and recommendations.

Post Fiji management will be reviewing the finance policy manual and will include the accounts receivable policy into the manual. It will also include the policy on accounts receivable impairment. This task has been planned to be carried out after the implementation of the new financial system.

SECTION 11: UNIT TRUST OF FIJI (MANAGEMENT) LIMITED

Programme Statement

The Unit Trust of Fiji (Management) Limited is a wholly Government owned entity that manages the Unit Trust of Fiji (UTOF) – a fund management company established and governed under the Unit Trust Act.

The Unit Trust of Fiji (Management) Ltd is a Government Commercial Company and operates under the umbrella of the Ministry of Public Enterprises.

The main responsibility of the Unit Trust of Fiji (Management) is to manage the Trust in a proper and efficient manner. In doing so, it must comply with all of its obligations set out in the Trust Deed and the relevant laws of Fiji.

The management company buys and sells units to and from the public and decides where to invest the UTOFs assets for the benefit of the unit holders.

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PART A – FINANCIAL INFORMATION

11.1 Audit Opinion - 2013

The audit of the financial statement for the Unit Trust of Fiji (Management) Limited for the year ended 31 December, 2013 resulted in the issue of an unqualified audit report.

11.2 Abridged Statement of Financial Performance

Year Ended 31 December	2013 ($)	2012 ($)
Revenue		
Operating Revenue	1,461,212	1,291,356
Other Operating Income	26,521	66,366
Total Operating Revenue	**1,487,733**	**1,357,722**
Expenditures		
Personnel Expenses	494,089	476,951
Other Operating Expenses	580,890	491,284
Depreciation	112,780	109,868
Total Operating Expenditure	**1,187,759**	**1,078,103**
Profit before Income Tax	**299,974**	**279,619**
Income tax expenses	60,922	52,471
Net profit for the year	**239,052**	**227,148**

UTOF recorded a net profit of $239,052 in 2013, an increase of $11,904 or 5.2% compared to 2012. The increase in net profit was due to the increase in fee income from manager's remuneration and preliminary charges received during the year.

The manager's remuneration is a fee received from UTOF Trustee which is 1.5% on the total value of all Unit Trust of Fiji deposited property. Preliminary charges are the entry fee at a rate of 2% received from unit holders of the Unit Trust of Fiji.

11.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Current assets		
Cash at bank and on hand	582,962	816,348
Investment – held to maturity	55,865	55,865
Receivables	511,841	36,284
Total current assets	**1,150,668**	**908,497**
Non-current assets		
Plant and equipment	239,144	247,026
Intangible Assets	37,111	67,609
Total non-current assets	**276,255**	**314,635**
Total assets	**1,426,923**	**1,223,132**
Current liabilities		
Creditors and accruals	261,255	188,464
Provision for Income tax	4,622	2,267
Total current liabilities	**265,877**	**190,731**
Non-current liabilities		
Deferred income tax liability	11,027	7,860
Total non-current liabilities	**11,027**	**7,860**
Total liabilities	**276,904**	**198,591**
Net assets	**1,150,019**	**1,024,541**
Shareholders' equity		
Share capital	50,000	50,000
Retained earnings	1,100,019	974,541
Total shareholders' equity	**1,150,019**	**1,024,541**

Total assets increased by $203,791 or 16.7% due to the increase in receivables by $475,557 relating to accruing of manager's remuneration and reimbursement of repurchases of units.

Total liabilities also increased by $78,313 or 39.4% as the result of increases in creditors and accruals by $72,791 or 38.6%, provision for income tax by $2,355 or 103.9% and deferred income tax liability by $3,167 or 40.3%.

The increase in shareholders' equity resulted from a net profit of $239,052 with $113,574 as dividend for the year 2012 being paid to shareholders at $2.27 per share.

SECTION 12: FIJI MEAT INDUSTRY BOARD

Programme Statement

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

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

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

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PART A - FINANCIAL INFORMATION

12.1 Audit Opinion - 2013

The audit of the financial statements of the Fiji Meat Industry Board for the year ended 31 December 2013 resulted in an unqualified audit report. Attention was however drawn to the following matter:

Cash and cash equivalent of $215,650 is inclusive of $23,557 as lodgments not yet credited alleged to have been misappropriated in 2010.

12.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2013 ($)	2012 ($)
Revenue		
Operating Income	3,592,004	3,535,350
Other Revenue	263,509	340,674
Total Revenue	**3,855,513**	**3,876,024**
Expenditure		
Changes in inventories – finished goods	(1,098,351)	(1,129,269)
Raw materials and consumables used	(158,851)	(206,290)
Staff costs	(895,749)	(825,119)
Depreciation expense	(254,501)	(187,657)
Other operating expenses	(1,029,545)	(1,051,598)
Profit from Operations	**418,516**	**476,091**
Finance Cost	(91,535)	(100,730)

Year Ended 31 December	2013 ($)	2012 ($)
Total comprehensive income for the year	**326,981**	**375,361**

The decrease in total comprehensive income in 2013 by 13% compared to 2012 was due to the following:

- other revenue declined as there was no gain on sale of plant & equipment recorded; and
- slight increase in total operating costs as a result of increases in staff costs and depreciation expenses.

12.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Assets		
Cash and cash Equivalents	215,650	132,717
Held to maturity investment	201,044	195,681
Receivables	381,385	343,892
Inventories	122,162	121,425
Property, Plant & Equipment	2,106,686	1,771,314
Total Assets	**3,026,927**	**2,565,029**
Liabilities		
Payables	243,268	281,014
Interest Bearing Borrowings	1,074,824	1,088,461
Deferred Income	508,300	322,000
Total Liabilities	**1,826,392**	**1,691,475**
Net Assets	**1,200,535**	**873,554**
Equity		
Retained Earnings	1,200,535	873,554
Total Equity	**1,200,535**	**873,554**

The increase in net assets in 2013 compared to the previous year was largely due to the grant in kind from the Government in the form of two fully refrigerated trucks valued at $333,500 in 2013.

SECTION 13: PUBLIC RENTAL BOARD

Programme Statement

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

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

The main activities of the Board are as follows:

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

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PART A – FINANCIAL INFORMATION

13.1 Audit Opinion – 2013

The audit of the financial statements of the Public Rental Board for the year ended 31 December 2013 resulted in the issue of an unqualified audit report.

13.2 Abridged Statement of Financial Performance

Year ended 31 December	2013 ($)	2012 ($)
Revenue		
Rental Revenue	2,699,895	2,632,329
Operating Income	227,290	169,189
Interest Revenue	4,337	5,066
Total Operating Income	**2,931,522**	**2,806,584**
Expenses		

Year ended 31 December	2013 ($)	2012 ($)
Depreciation	339,511	365,381
Staff Costs	1,108,978	1,123,012
Other Operating Expenses	1,042,085	1,290,298
Finance Cost	121	19,328
Total Expenses	**2,490,695**	**2,798,019**
Net Profit for the Year	**440,827**	**8,565**

The Board's net profit increased $440,827 in 2013 compared to $8,565 in 2012. This was mainly attributed to the increase in rental revenue as a result of the increase in monthly rental charge for two housing estates, namely Votua and Natabua. The Board's expenses also declined by $307,324 in 2013 mainly due to less general maintenance undertaken for the housing estates during the year as compared to 2012.

13.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Assets		
Cash	1,355,639	1,336,820
Investments	77,585	77,745
Other Assets	115,839	138,074
Property, Plant & Equipment	7,527,305	7,193,381
Total Assets	**9,076,368**	**8,746,020**
Liabilities		
Creditors	2,616,711	2,938,085
Deferred Revenue	879,318	709,169
Borrowings	1,014,712	1,014,712
Employee Entitlement	235,241	194,495
Total Liabilities	**4,745,982**	**4,856,461**
Net Assets	**4,330,386**	**3,889,559**
Total Equity	**4,330,386**	**3,889,559**

Net assets increased by $440,827 or 11% in 2013 compared to 2012. This was due to the increase in property, plant and equipment by $333,924 or 5% as the result of the completion of a community hall in the housing estate of Noadamu in Labasa and also the purchase of tools and equipment.

PART B – CONTROL ISSUES

13.4 Credit balances in accounts receivable

Credit Balances in the Accounts Receivable comprises of overpayments of rentals by tenants and/or allocation of rental subsidies to tenants who were paying higher than the minimum required amount of rent.

The audit noted that the credit balances in rent receivable for the year 2013 was $417,736. Refer to Table 13.1 for examples of credit balances.

Table 13.1: Credit Balances in Accounts Receivable

Tenant	Estate and Flat No.	Total rent charge from weeks 1 to 52 in 2013 ($)	Total rent paid by tenants in 2013 ($)	Total rent paid by subsidy in 2013 ($)	Balance	Opening Balance 2013	Balance as at 31 December 2013
Maria	Naodamu. Flat No. 504/06	1,430.00	1,500.00	1,047.00	(1,117.00)	(6,501.95)	(7,596.14)
Kanito	Naodamu. Flat No.504A/13	1,430.00	(1,040.00)	(1,272.00)	(882.00)	(8,441.50)	(9,323.50

Further audit into the issue found that there was no evidence that the Board has advised the recipients of their subsidy eligibility resulting in their paying the full rental amount.

Recommendations

The Board should:

- **carry out an extensive review and reconciliation of tenant accounst with credit balances and refund to the tenants excess payments made by them.**
- **ensure that tenants who receive rental subsidy are informed of the benefit and the actual amount of rent they are required to pay.**

Management Comments

Comments are noted. These two cases identified by the auditors have credit balances due to subsidy and cannot be refunded. Management will reconcile all credit balance accounts to reflect a true value in the tenant(s) account. Tenants are informed of the rental subsidy and the tenant confirmation for estates where general maintenance has completed and rent charge is increased to the market rate.

13.5 Unallocated subsidy

The government provides an annual grant to the Board to subsidise rental payments for tenants. Any grants that are unutilised at year end are shown as a liability until such time as they are applied.[1]

Unutilized subsidy grant are used by the Board for capital works subject to the approval by the Minister for Local Government.

Our review of the grant subsidy balance recorded as a liability revealed that subsidy grant liability for the year 2010 has increased in 2013 by $34,993.91. The balance in 2012 was $6,025.93. The Board has not provided a valid explanation for the increase.

Increase in unallocated subsidy balance of 2010 without supporting documents increases risk of incorrect financial reporting of unallocated subsidy in the balance sheet.

Recommendation

The Board should carry out a reconciliation of the 2010 unallocated subsidy and make appropriate adjustments to ensure 2010 unallocated subsidy balance is fairly reported.

[1] Public Rental Board Accounting Policies, Note 1.3(m)

Management Comments

The reconciliation for the 2010 subsidy balance was provided to the auditors via email on 19.02.14. Listed below is the reconciliation of the 2010 subsidy:

2010 Subsidy Grant Reconciliation:	
Balance left as at 2010	*$ 110,714.10*
less Raiwaqa Rugby Club Construction 2012	*$ (104,688.17)*
less Raiwaqa Rugby Club Construction 2013	*$ (5,149.35)*
less Naodamu Community Hall Construction	*$ (4,196.74)*
add Reimbursement by PM's office for Raiwaqa Rugby Club	*$ 44,340.00*
Balance as at 31.12.13	***$ 41,019.84***

Further OAG Comments

As per the letter of approval from Minister for Local Government, Urban Development, Housing and Environment, approval was given for the construction of the Community Hall in Namaka and not Raiwaqa Rugby Club as stated in the reconciliation above.

13.6 Long outstanding VAT liability

Any long outstanding liability increases doubts about its valuation and existence hence increasing risk of incorrect financial reporting. It is imperative that long outstanding creditor's balances are investigated and appropriate adjustments to write back those liability accounts are made to ensure creditors are fairly reported in the financial statements.

Scrutiny of the Board's creditors and accrued charges account revealed long outstanding VAT liability from 2007 to 2012. Refer to Table 13.2 for details.

Table 13.2: Long outstanding accruals

Payee	Amount ($)
VAT exp 2007	86,769.49
VAT exp 2008	80,814.51
VAT exp 2009	50,663.38
VAT exp 2010	62,723.72
VAT exp 2011	60,580.04
VAT exp 2012	81,235.29
Total	**422,786.43**

Further audit into the issue found a string of correspondences between the Board and Fiji Revenue Customs Authority on the occurrence and actions taken for settlement of the VAT liability. Refer to the following chronological of events for details:

- On the 18th of January 2010, the Board's General Manager wrote to the CEO of FRCA seeking clarification as to whether the Board is exempted from paying VAT on grants received from Government and ordinary procurements and consultancy works commissioned by PRB.
- On the 5th March 2010, FRCA responded stating that the Board is required to pay VAT as per the requirement of paragraph 3(5) and 3(6) of the VAT Decree.
- On the 24th of May 2010, FRCA informed the Board that they were undertaking a review of the company's VAT returns for the period 2000 to April 2010. FRCA also requested the Board to provide summary of grants received/output declared for the period.

- On the 1st June 2010, the Board responded to the above request providing the relevant details from 2000 to April 2010.
- On the 4th of June 2010, the Board wrote to FRCA's Chief Executive Officer requesting his Office to look into the matter further before a decision is made whether or not PRB is entitled to pay VAT on government grants.
- On the 10th of June 2010, FRCA wrote to the Co-ordinator Finance at PRB advising him that the Board needs to comply with section 3(6) of the VAT decree and pay VAT on all government grants.
- On 2nd November 2010, FRCA wrote to the Finance Coordinator at PRB stating that the review of the VAT returns for the Board for the period January 2007 to September 2010 has been completed and that the total VAT outstanding amount was $268,698.37.
- On 24 November 2010, the Chairman of the Board wrote to the Minister of Finance requesting that the Ministry pays the VAT liability amount.
- On 2nd January 2014 a letter from the Board's line Ministry to the Board indicated that payment of the amount was made to Public Rental Board via cheque no. 034803.
- On 7th January 2014, the Board took a cheque to FRCA for payment of the VAT liability amount. However, audit gathered that FRCA did not accept payment citing the Board having a credit balance in its VAT account as the reason.

The audit found that the Board has also accrued VAT on 2011 and 2012 government grants. However, audit was informed by the Manager Finance that no assessment has been lodged with FRCA for the period 2007 to 2013. Additionally, audit noted that VAT was not accrued on government grants for year 2013.

Non-accounting of VAT for the year ended 31 December 2013 may result in incorrect financial reporting. Also non-lodgement of VAT returns may expose the Board to penalties.

Recommendations

The Board should:

- **meet personally with the National Manager or the CEO of FRCA, discuss the VAT queries and resolve outstanding matters.**
- **account for VAT and lodge VAT to FRCA irrespective of any delays from FRCA relating to any significant issues. This will ensure that the Board is not charged with late lodgment penalties and at the same time is complying with the VAT decree.**

Management Comments

Comments are noted. Management is currently taking steps to meet with FIRCA to resolve this outstanding issue from the past financial years.

13.7 Deferred revenue balance

To be reliable, information must represent faithfully the transaction and other events it either purports to represent or could reasonably be expected to represent.

Our review of deferred income account revealed that it includes an amount of $120,656 which relates to IFRS entry/upgrading made in 2007. The amount was initially recorded in the trade creditors' account and was transferred to the deferred grant account during the financial year 2013. The audit was not able to obtain supporting documents to substantiate the balance of $120,656.

There is a risk that the deferred income balance in the financial statements may not be fairly stated.

Recommendation

The Board should investigate the transaction giving rise to the amount and make the appropriate adjustments in the financial statements. Adequate supporting documents should be made available for any adjustment made.

Management Comments

Comments are noted. Management will take appropriate steps to address the general ledger to reflect the true value.

SECTION 14: REWA RICE LIMITED

Programme Statement

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

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

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

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PART A – FINANCIAL INFORMATION

14.1 Audit Opinion – 2009

The audit of the financial statements of Rewa Rice Limited for the year ended 31 December 2009 resulted in the issue of an unqualified audit report. Management attention was however drawn to the following matter:

As at 31 December 2009 there is an overall excess of liabilities over assets of $4,951,870 (2008: $4,897,373). Accordingly, there is significant uncertainty as to whether the company will be able to continue as a going concern and whether it will be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the Financial Statements. The company’s amounts advanced will not be demanded in due course. The Financial Statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

14.2 Statement of Financial Performance

As at 31 December	2009 ($)	2008 ($)
Revenue		
Sales	318,605	496,479
Cost of Sales	(355,897)	(469,528)
Gross (Loss) /Profit	**(37,292)**	**26,951**
Other Income	224,676	246,806
Total Revenue	**187,384**	**273,757**
Expenditure		
Depreciation and Amortization	(28,929)	(27,536)
Personnel Expenses	(61,212)	(61,843)
Other Operating and Administration Expenses	(151,740)	(176,174)
Total Expenditure	**(241,881)**	**(265,553)**
Profit/(Loss) after income Tax	**(54,497)**	**8,204**

Rewa Rice Limited recorded a loss of $54,497 in 2009 compared to a profit of $8,204 in 2008. The loss is mainly attributed to the decrease in sales by $177,874 or 36% compared to 2008.

14.3 Statement of Financial Position

As at 31 December	2009 ($)	2008 ($)
Assets		
Cash on hand and at bank	35,995	242,541
Other current assets	200,254	20,677
Inventories	33,457	24,648
Property Plant and Equipment	1,597,972	1,652,632
Total Assets	**1,867,678**	**1,940,498**
Liabilities		
Trade & Other Payables	94,166	109,475
Provisions	0	3,014
Borrowings	6,725,382	6,725,382
Total Liabilities	**6,819,548**	**6,837,871**
Net Deficiency In Assets	**(4,951,870)**	**(4,897,373)**
Shareholders' Equity		
Total Shareholders' Equity	**(4,951,870)**	**(4,897,373)**

The company's net deficiency in assets increased by $54,497 or by 1% in 2009 compared to the amount reported in 2008. The increase is attributed to the decrease in property, plant and equipment by $54,660 or 3% as compared to the amount reported in 2008. The borrowings of $6,725,383 consist of advances and loans from the Government of Fiji.

PART B – CONTROL ISSUES

14.4 Going concern

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

Audit noted that as at 31 December 2009 there is an overall excess of liabilities over assets of $4,951,870 (2008: $4,897,373). Accordingly, there is significant uncertainty as to whether the company will be able to continue as a going concern and whether it will be able to pay its debts as they become due and payable and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the Financial Statements. The Company's amounts advanced will not be demanded in due course. The Financial Statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

Failure of the company to improve its financial position may have an impact on its continuous operation in the long run.

Recommendation

The company should to re-evaluate its operation to ensure that it operates profitability and continue operations in the future.

Management's Comments

The current management team was appointed in mid-2013 with the Board Directors being appointed in 2010, 2012 and 2013 respectably. This audit reports highlights the financial performance of 2009.

We had a special audit done through PWC and also a special Audit was conducted by Ministry of Public Enterprises in 2013. The recommendations highlight in these audits gave us a clear benchmark on the process & procedures. (Attached both Audit Reports)

Under the new management and Board the company has management to turn around the company. Some of the major achievements include:

1. *Repair & Maintenance of Dreketi Mill (Building plus Machines)form own cash flow*
2. *New company vehicle from own cash flow*
3. *New Generator from own cash flow*
4. *Development of Policies (HR, Accounting, and OHS)*
5. *Company restructure and cost cutting which reduced the cost of production from $1.46 per kg to $1.11 per kg*
6. *Increase in sales which now include Viti Levu Markets.*
7. *RRL made profit from the month of March 2014 till to date.*
8. *The company has also written a submission to the Ministry of Public Enterprise to convert its debt to equity. We are hopeful that we will achieve this.*
9. *The company is looking forward to expansion after the commissioning of new mill in Labasa early next year.*
10. *The company is also exploring the idea of planting rice to supplement the low supply of paddy to the mill*
11. *The company is also recommending to the government to sell part of Nausori properties while the other properties to be rented out for additional income for the company.*

14.5 Income tax not properly supported

Calculation of income tax should always be supported with tax worksheet. Deferred income tax is provided in full, using the balance sheet liability method, or temporary difference arising between the tax base of asset and liabilities and their carrying amount in the financial statement[1]

The review of income tax records of the company revealed that there was no supporting schedule or worksheet prepared as evidence to support the income tax amendment in the financial statement. Additionally, necessary information such as Tax Fixed Asset Schedule was also not provided for audit to check deferred income tax.

Lack of supporting documents relating to calculation of Tax increases risk of incorrect financial reporting of income tax. Additionally, the company may lodge incorrect income tax return to Fiji Revenue and Customs Authority

Recommendation

The company should ensure that the income tax worksheet is prepared to support disclosure of income tax in the financial statement.

Management Comments

There has been a change in Management from mid-2013 and the accounts are in order now (proper filing and documentations are kept accordingly)

14.6 Discrepancy in sales of milled grain

Total sales as per dollar value should always be equal to total sales multiplied by the selling price. Total sales in volume will equate to a reduction in the inventory.

The review of the sales and inventory revealed discrepancy in actual sales recorded by the company. Refer to Table 14.1 for the details of the discrepancy.

Table 14.1: Discrepancy in actual sales

Particulars	Volume (kg)/amount ($)
Opening milled grain	9,470
Total rice produced in 2009[2]	221,583
Less closing milled grain	6,341
Total grain of rice (kg) sold as per audit calculation	**224,712**
Actual rice sold in 2009	197,331
Variance in (kg)	**27,381**
Average selling price	$1.80
Variance in dollars	**$49,286**

The variance indicates that theft of inventories may have occurred.

[1] Note 2(k), Notes to and forming part of the financial statement, Income Tax, paragraph 2
[2] 65% of $340,897 (total paddy used in production)

Recommendations

- **The company should investigate the variance and take appropriate actions on the officers responsible.**
- **The company should ensure that stringent internal controls should be put in place to safeguard misappropriation of inventories.**

Management Comments

We will further investigate as to how these variances were missed out by the previous management. The company now has a verification process where Finance team makes approval and final approval from the Mill Manager. Monthly detailed account is presented to the Audit sub-committee and then to the Board.

14.7 Insufficient supporting documents for payments

All payments should be supported by appropriate sufficient supporting documents.

Audit noted from review of sample payments that there was lack of supporting documents to substantiate some payments made through cash cheques. These payments mostly relates to reimbursements of expenses incurred by the Chairman. Refer to Table 14.2 for details:

Table 14.2: Payment with Insufficient Supporting documents

Date	Cheque #	Payee	Amount ($)	Nature of payment
27.02.09	6561	Cash	848.31	Board fees, sitting allowance and Chairman's Home away allowance for 2 days.
30.04.09	5299	Cash	648.30	Unknown
06.05.09	5377	Cash	1033.30	Unknown
15.09.09	7278	Cash	1,183.30	Reimbursement for Chairman in Suva for July, August and September 2009.
06.11.09	7419	Cash	733.30	Reimbursement for Board fees and miscellaneous of $200.
04.12.09	7053	Cash	683.30	Chairman's allowance and board fees for December 2009.
24.12.09	7092	Cash	512.00	Reimbursements for Chairman
29.10.09	7401	Cash	500.00	Travel and accommodation for Chairman for attending business meeting with FSC and travelling cost for attending 3 day food summit conference in Nadi.

Lack of appropriate supporting documents for payments made indicates that payments may not have been incurred for official purposes.

Recommendation

The company should ensure that prior to making payment all supporting documents are made available, sighted and accepted by the officer approving the payments. Additionally, all the supporting documents should be properly kept for future references.

Management Comments

This is now in practice under new management.

14.8 Variance in sales as per VAT lodgement and general ledger

It is important that VAT exclusive sales after VAT output adjustment as per VAT lodgement should agree with VAT exclusive revenue as per general ledger. This will ensure that VAT liability is not misstated.

Audit noted from the review of VAT that the company reported lower sales after VAT in the VAT lodgement form which is lodged with Fiji Revenue Custom Authority (FRCA) compared to what is reported in the general ledger. Refer to Table 14.3 for details:

Table 14.3: Variance in sales as per VAT lodgement and general ledger

VEP sales as per VAT lodgement form lodged with FRCA	VEP revenue reported in the general ledger	Variance
485,713	543,281	57,568

The above variance indicates that VAT was incorrectly lodged. Additionally, it exposes risk of incorrect financial reporting of revenue and VAT in the financial statements. The Company can be severely penalized by FRCA for not disclosing all revenue in the VAT lodgement.

Recommendation

The company should investigate the above variance and make necessary adjustments to VAT account.

Management Comments

We accept the recommendation and we will investigate on the above issue. We will wait for the audited accounts and resolve the matter with FRCA.

14.9 Lack of supporting documents

It is an important internal control that supporting documents are available for all receivables recorded in the financial statements.

Audit noted that there were no supporting documents for sundry debtors amounting to $198,336 and lodgments not credited amounting to $146,123. These were shown under other debtors and prepayments and also as a provision for doubtful debts. The company has not taken any actions to recover these debts.

Lack of supporting documents increases risk of overstatement of receivables in the financial statements.

Recommendation

The company should ensure that necessary reconciliations are carried out and supporting documents made available for the receivables amount

Management Comments

This is now in practice under new management.

SECTION 15: AIRPORTS FIJI LIMITED

Programme Statement

Airports Fiji Limited (AFL) is a wholly government owned 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 Fiji. 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).

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PART A – FINANCIAL INFORMATION

15.1 Audit Opinion

The audit of the financial statements of the Airports Fiji Limited for the year ended 31 December 2013 resulted in the issue of a qualified Audit Report. The issue qualified is as follow:

- As explained in Note 2(a) to the financial statements, the company accounts for all government grants received after 1 January 2010 as a capital contribution. This is a departure from the International Financial Reporting Standard IAS 20 *"Accounting for Government Grants and Disclosure of Government Assistance"* which requires government grants provided for the purchase or construction of assets to be recognized initially as deferred income and then recognized in profit or loss as other income on a systematic basis over the useful life of the related asset. Government grants that compensate the company for expenses incurred are required to be recognized in profit or loss as other income on a systematic basis in the same period that the expenses are recognized.

  Airports Fiji Limited's records indicated that had the company complied with IAS 20, the impact would be to increase other income and retained earnings by $198,888 and $544,498 respectively, increase both government grants and total liabilities by $3,655,123 and reduce capital contribution by $4,199,621.

15.2 Abridged Statement of Comprehensive Income

Year Ended 31 December	2013 ($)	2012 ($)
Revenue		
Navigation charges	14,292,454	13,533,437
Concessions	12,387,536	12,698,810
Landing and parking fees	12,128,367	11,862,517
Airport security/development fee	7,559,891	7,322,203
Departure tax share	5,820,465	6,196,238
Rental	4,019,118	4,253,125
Domestic passenger service charge	1,178,711	845,093
Other income	6,402,598	5,973,435
Total Revenue	**63,789,140**	**62,684,858**
Expenditure		
Administrative expenses	20,587,209	20,299,306
Operating expenses	12,900,429	13,996,780
Personnel expenses	14,277,589	14,082,001
Finance expenses (net)	-	177,565
Total Expenditure	**47,765,227**	**48,555,652**
Profit Before Tax	**16,023,913**	**14,129,206**
Income tax expense	3,112,097	2,851,846
Net Profit for the Year	**12,911,816**	**11,277,360**

The net profit recorded in 2013 increased by $1.6 million or 14.5% compared to the previous year. This resulted mainly from increase in total revenue by $1.1 million and reduction in operating and finance expenses for the year.

15.3 Abridged Statement of Financial Position

As at 31 December	2013 ($)	2012 ($)
Cash and cash equivalents	27,208,062	17,611,274
Term deposits	7,000,000	7,000,000
Trade receivables	10,257,220	12,886,289
Other current assets	2,797,841	1,977,827
Property, plant and equipment	140,649,494	156,260,952
Investment property	9,483,082	-
Total Assets	**197,395,699**	**195,736,342**
Trade and other payables	6,075,348	8,447,457
Other current liabilities	2,082,629	2,871,238
Borrowings	1,514,910	7,571,346
Deferred tax liability	6,409,711	7,454,361
Other non-current liabilities	13,680,608	14,864,725
Total Liabilities	**29,763,206**	**41,209,127**
Net Assets	**167,632,493**	**154,527,215**
Equity		
Share capital	92,300,180	92,300,180
Retained earnings	71,132,692	58,220,876
Capital contribution	4,199,621	4,006,159
Total Equity	**167,632,493**	**154,527,215**

The significant decrease in liabilities has resulted in the increased net assets by $13.1 million or 8.5% in 2013 compared to 2012. The reduction in liabilities was mainly due to decreased loans and borrowings by $6,056,436 or 80% due to the full repayment of a bank loan during the year.

Housing estate, with a total cost of $10.4 million, that is leased to third parties were reclassified as investment property, thus the reduction in property, plant and equipment.

PART B – CONTROL ISSUES

15.4 Amortisation of government grants received prior to 1 January 2010

International Accounting Standard (IAS) 20.12[1] states that government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Further, *IAS 20.17* states that grants that relate to the acquisition of an asset are recognised in profit or loss as the asset is depreciated or amortised.

The audit noted that the company amortises all government grants received in 2009 and prior, whether or not the grants have been utilised. Unutilised grants should not be amortized until the related costs are incurred or related asset has been acquired.

The funding provided by the Government relates to infrastructure items which audit understands are depreciated at over 12.99 years however the grants are being amortised over a period of 8 years.

Non-compliance with the *International Accounting Standards* has resulted in understatement of deferred government grant liability by $1,107,946, overstatement of 2013 profit by $193,149 and overstatement of opening retained earnings by $914,797.

Recommendation

The management should consider revisiting its accounting policy in respect of government grant accounting including assessing and correcting the amortisation of government grants received prior to 1 January 2010.

Management Comments

The accounting of government grant was based on Cabinet decision dated 12 June 2013 that was retrospectively applied from 2010 onwards. The circular states that government grants received after 2010 should be treated as capital contribution.

15.5 Capitalisation of training costs

IAS 16.19(c)[2], states that: *"costs of conducting business in a new location or with a new class of customer (including costs of staff training) are not cost of an item of property plant and equipment".*

The audit noted from the review of the work in progress listing that staff training costs amounting to $534,485 were capitalized. The cost of training a staff to use specialized equipment as the training does not create an asset; the employee is free to leave the company's employment at any time by providing the contracted notice period.

[1] IAS 20 – Accounting for Government Grant & Disclosure of Government Assistance
[2] IAS 16 – Property, Plant and Equipment

Capitalisation of training cost could result in overstatement of property, plant and equipment and understatement of expenses.

Recommendation

All training costs incurred in connection with an item of property plant and equipment should be expensed as incurred.

Management Comments

The training cost is only capitalized where appropriate. In the subject case AFL's Air Traffic Management Department procured Automatic Dependent Surveillance Broadcast system which cost approximately $8 million. As per IAS 16.16 (b), states that: "any costs directly attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management" are to be capitalized. A professional cost is paid to the supplier to train the staff to efficiently operate the system as intended by the management. The training comes with the new equipment in this specialized field.

In many other instances training cost is expensed.

15.6 Zero written down value assets

Included in the fixed asset register are assets with original cost amounting to $25million with a zero written down value (WDV). The majority of these assets relate to plant and equipment which audit understands is still being used in the company's operating activities.

As the assets are still in use, the company's initial estimate of the useful lives of these assets may not have been correct or had not been revised to take account of revision in the estimated useful lives. Refer to the Table 15.1 below for examples:

Table 15.1: Examples of zero written down value assets in use

Asset ID	Asset Description	Cost ($)
PEQ-ADM-051	Information Technology Upgrade	570,529
PEQ-ADM-052	New Finance System	502,702
PEQ-AFD-002	"Entech" Diesel Fired Incinerator with Personal Computer, P	1,104,000
PEQ-AFD-128	Runway Lighting and cable connections	671,000
PEQ-AFD-129	Airfield Lighting – upgrade	503,732
PEQ-AUA-022	ATM Technology – Turnkey	4,111,232
PEQ-AUA-023	Automatic Message Switching System (AMSS)	3,475,844
PEQ-AUA-027	"Eurocat" '2000X' Air Traffic Management System, "Redflex"	2,840,000
PEQ-AUA-028	"Global Weather Dynamics" Unified Message Switching System	1,387,000

Failure to revise the estimated useful life of the assets would have resulted in an overstatement of depreciation expense in prior periods and understatement of the written down value of plant and equipment.

Recommendation

The management should regularly review the estimated useful lives of significant assets that have not yet been fully depreciated and ensure that the estimated useful life remains appropriate. Any revisions should be accounted for prospectively.

Management Comments

Zero WDV is based on accounting allowable depreciation. It does not necessarily mean that an asset with a zero WDV has a zero useful life left. The quality of our repair and maintenance work usually results in extending life of assets. However, we do not have a "certain" mechanism to determine what that life will be at the date of acquisition.

15.7 Contracts not finalised

The audit noted that certain contracts had either expired or had not been finalized. These included:

- Tenancy (housing) - these relate to contracts between the tenants and AFL. The contracts sighted during the audit had expired.

- Land lease - Land in Nadi is leased by the AFL from the government. The land lease agreement for this has not been finalised since 2010 when the first draft of the lease was drawn up. Since then the company has been accruing rent at $450,000 per annum.

- Meteorological Department - the company remits $50,000 per month to Fiji Meteorological Services for providing weather reports to AFL. To date there is no formal contract to ascertain the exact portion of costs incurred by Fiji Meteorological that should be recharged to AFL.

The absence of contractual arrangements creates uncertainty and increases the risk to the company in the event of a dispute.

Recommendation

The management should create an inventory of all contracts and work with relevant third parties to update its contractual arrangements.

Management Comments

- *Tenancy (housing) contracts are being renegotiated with respective tenants to get a better deal as it falls due. The Commerce Commission rent freeze has led to this.*
- *Land Lease – this is being followed with Ministry of Lands.*
- *Meteorological Department – acknowledge there is no formal contract, however AFL has written to Metrological Department on many occasion asking them to come to the table to discuss and resolve the issue. AFL is still waiting.*