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# STANDING COMMITTEE ON PUBLIC ACCOUNTS

## Review on the Audit Report of the Municipal Councils for 2014 -2017



**PARLIAMENT OF THE REPUBLIC OF FIJI**  
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# TABLE OF CONTENT

|   |    |
|---|----|
| CHAIRPERSON'S FOREWORD .....  | 4  |
| COMMITTEE MEMBERS .....   | 6  |
| INTRODUCTION .....  | 7  |
| COMMITTEE PROCEDURES.....   | 7  |
| COMMITTEE MEMBERS.....  | 7  |
| RESOURCE PERSONS.....   | 8  |
| BACKGROUND.....   | 9  |
| COMMITTEE FINDINGS - FOUR (4) MUNICIPAL COUNCILS.....                                     | 10 |
| 1.0 Audit Opinions Issued:.....   | 10 |
| 1.1 Modified opinions.....  | 10 |
| 1.2 Unmodified opinions .....   | 10 |
| 1.3 Disclaimer of Opinion .....   | 10 |
| 2.1 Financial Performance.....  | 11 |
| 3.0 Internal Controls .....   | 12 |
| 3.1 Internal ControlAssessment.....   | 12 |
| 3.2 Common findings – Internal Controls .....   | 13 |
| 4.0 Other Significant Matters .....   | 14 |
| 4.2.2 Rakiraki Town Council 2014 – 2016 – Interest revenue.....                           | 15 |
| 4.2.5 Ba Town Council 2014-2017 - Appointment of Special Administrator.....               | 16 |
| 4.2.6 Rakiraki Town Council 2014-2017 - Accounting records not produced for audit.....    | 16 |
| 4.2.7 Rakiraki Town Council 2015 – Allowance for Former Acting Special Administrator..... | 16 |
| 4.2.8 Anomalies in the Capital Fund Account – Sigatoka Town Council.....                  | 17 |
| 4.2.9 Sigatoka Town Council 2017 - Special loan rates .....                               | 17 |
| 5.0 Audit Summary .....   | 18 |
| RECOMMENDATIONS .....   | 19 |
| CONCLUSION.....   | 20 |
| APPENDICES .....  | 22 |

# CHAIRPERSON'S FOREWORD



I am pleased to present the Committee report on the review made to the Audit Reports on Municipal Councils for 2014 – 2017. The audit reports summarises and provides an analysis on the findings and results of the 16 financial reports for the four (4) Municipal Councils that were audited. This audit reports contains the financial audits for the Municipal Councils for the audits that were completed for the 2014 financial year and onwards up till year 2017.

It is important to note that under Section 51 (1) of the Local Government Act 1972 mandates the Office of the Auditor General to audit the accounts of the Municipal Councils. However, there is a serious concern on the financial accountability of Municipal Councils in terms of financial reporting and making available to the rate payers of the council and the public on the audited financial statements.

Most importantly, pursuant to Section 57 (3) stated that “On or before 31 August in every year the Council shall publishes in an English language newspaper published in Fiji and circulating within the municipality–

- (a) a balance sheet and a summarised statement of income and expenditure of the Council on 31 December immediately preceding, together with any report by the auditor thereon; and
- (b) notification that any rate paper or any person holding any security charged upon the property of the Council may, at all reasonable time may inspect, the Council’s office, the full annual statement as certified by the auditor and the Council’s annual report prepared pursuant to the provisions of section 19 and may take copies from any part of the statement of report”

It is important to note that the Councils have expressed their commitment towards updating their financial statements to 2018 by end of the 2019/2020 financial year. The issues discussed and resolved during the consultations require the immediate attention of the Special Administrator as well as the Ministry of Local Government on improving the financial accountability of the Municipal Councils.

The Committee report herein contains 16 audited financial statements for four (4) municipal councils which are as follows:–

1. Labasa Town Council: 2014-2017
2. Sigatoka Town Council: 2014-2017
3. Ba Town Council: 2014-2017
4. Rakiraki Town Council: 2014-2017

The three (3) major issues surrounding the qualification of the audit opinion were due to the following issues;

- 1. Non- preparation of the financial statements under the International Financial Reporting Standards for Small and Medium-sized enterprises as required under the Fiji Institute of Accountant standards;**
- 2. Unsupported balances recorded in the financial statements including unreconciled variances between the Council’s general ledger balances and subsidiary records for balance sheet items specifically the rates receivable; and**
- 3. Ineffective internal controls to ensure quality preparation of financial statements and timely financial reporting to ascertain and determine the actual financial performance of the Municipal Councils.**

I would like to thank the Special Administrators, the Chief Executive Officers and the staff from the 4 Municipal Councils for the valuable contributions and facilitation towards the Committee hearing and also in providing clarifications on audit issues that were raised. I wish to acknowledge the Office of the Auditor General for their enormous efforts of resourcing the auditing of the Municipal Councils draft financial statements as well as the Ministry of Local Government as the overarching agency responsible for the Municipal Councils.

In particular, the Committee commends the **“Go Green Initiative”** that is currently adopted by the Rakiraki Municipal Market which other Municipalities can tailor make and adopts this initiative as this could address Sustainable Development Goals (SDGs) commitments such as SDG 13 on Climate Change i.e. **“Take urgent action to combat climate change and its impacts”** as well as in addressing SDG 11 on Sustainable Cities and Communities and that is to **“Make cities and human settlements inclusive, safe, resilient and sustainable”**.

I also wish to extend my appreciation to all the Honourable Members of the Committee who were part of the successful compilation of this bipartisan report, namely Hon. Joseph Nand (Deputy Chairperson), Hon. Vijendra Prakash, Hon. Aseri Radrodro and Hon. Ratu Naiqama Lalabalavu.

On behalf of the Committee, I also acknowledge the support from the Secretariat and other Parliament Staff for facilitated the public hearings held with the four (4) Municipal Councils as well as in the drafting process, compilation and finalisation of this Committee report.

With those few words, I now commend this report to the Parliament.



.....  
**Hon. Alvick Maharaj**  
**Chairperson**

## COMMITTEE MEMBERS

The substantive members of the Standing Committee on Public Accounts are as follow:



**Hon. Alvick Avikirit Maharaj  
(Chairperson)**



**Hon. Joseph Nitya Nand  
(Deputy Chairperson)**



**Hon. Aseri Masivou Radrodro  
(Opposition Member)**



**Hon. Ratu Naiqama Lalabalavu  
(Opposition Member)**



**Hon. Vijendra Prakash  
(Government Member)**

# INTRODUCTION

The Audit Report on Municipal Councils was tabled in Parliament during the September 2019 Parliament sitting and referred to the Public Accounts Standing Committee, for its scrutiny.

Standing Order 109(2) (d) mandates the Committee to “...– including examining the accounts of the Government of the Republic of Fiji in respect of each financial year and reports of the Auditor-General, and for any other matter relating to the expenditures of the Government of the Republic of Fiji or any related body or activity (whether directly or indirectly) that the committee sees fit to review. The committee must only examine how public money has been dealt with and accounted for in accordance with the written law and must not examine the merits of the underlying policy that informs public spending”.

This Report looks at the Report of the Auditor General on the Municipal Councils for 2014 - 2017, Parliamentary Paper 129 of 2019.

Copies of the relevant Auditor-General’s reports are available for perusal on the Parliament website [www.parliament.gov.fj](http://www.parliament.gov.fj) under “Parliament Business”.

## COMMITTEE PROCEDURES

The Committee reviewed the Audit Report on Municipal Councils and the following Councils were consulted and provided evidence:

- 1) Sigatoka Town Council;
- 2) Ba Town Council;
- 3) Rakiraki Town Council; and
- 4) Labasa Town Council

The consultations for these Municipal Councils were held in the office of each council. The Committee was accompanied by Auditors from the Office of the Auditor General with an Official from the Ministry of Local Government were also part of the consultations to provide the necessary technical advice.

## COMMITTEE MEMBERS

The Standing Committee on Public Accounts comprises of the following Members of Parliament:

- 1) Hon. Alvick Maharaj, MP (Chairperson)
- 2) Hon. Joseph Nand, MP (Deputy Chairperson)
- 3) Hon. Vijendra Prakash, MP (Member)
- 4) Hon. Aseri Radrodoro, MP (Member)
- 5) Hon. Ratu Naiqama Lalabalavu, MP (Member)

During the Standing Committee’s meetings in reviewing this audit report, the following alternate membership arose pursuant to Standing Order 115 (5):

- 1) Hon. Adi Litia Qionibaravi
- 2) Hon. Mikaele Leawere
- 3) Hon. Ro Teimumu Kepa

## **RESOURCE PERSONS**

The Committee together with the officials from the Office of the Auditor General and the Ministry of Local Government conducted its public hearings in the various mentioned municipal councils board rooms. The officials that assisted the Committee were:

### **OFFICE OF THE AUDITOR GENERAL:**

- 1) Mr. Dineshwar Prasad, Director Audit
- 2) Ms. Alani Draunidalo, Manager Audit
- 3) Mr. Sairusi Bulai, Senior Audit

### **MINISTRY OF LOCAL GOVERNMENT, HOUSING & ENVIRONMENT:**

- 1) Mr. Alipate Mataivilia, Senior Accounts Officer

## BACKGROUND

The Committee noted that the Local Government Act requires the councils to promote the health, welfare and convenience of the inhabitants of the municipality and to preserve the amenities.

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

| <b>Legislative Framework</b>              | <b>Requirement</b>                   | <b>Legislative Timeframe</b> |
|---|--------------------------------------|------------------------------|
| Local Government Act 1972, Section 57(1)  | Prepare Financial Statements         | 31 <sup>st</sup> May         |
| Local Government Act 1972, Section 57 (3) | Publish audited financial statements | 31 <sup>st</sup> August      |

Primarily a council may approval of the Minister to:

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

The audit report that was scrutinised by the Committee captured the list of issues from the Municipal Councils financial reports that were completed and audited by the Office of the Auditor General for the financial period 2014 and onwards.

Further, pursuant to Section 51 (1) of the Local Government Act 1972 mandated the Auditor General to audit the accounts of the Municipal Councils. Most importantly, the Committee noted in the audit report that financial accountability by the Municipal Councils in terms of financial reporting and making available to the rate payers of the councils and public audited financial statements was seriously lacking. In this regard, the Committee found that financial audits of the most of the Municipal Councils is behind by more than five (5) years as financial statements were not submitted annually to the Auditor General as required by law.



# COMMITTEE FINDINGS - FOUR (4) MUNICIPAL COUNCILS

The Committee in its review on the audit report found the following:

## 1.0 Audit Opinions Issued:

The summary of the audit opinions that were issued on the Audit of the Municipal Councils for the financial years 2014 – 2017 as at 28 August 2019 are as follows.

### Audit opinions issued by OAG for 2014 - 2017 financial year

| Municipal Council | Year        | Unmodified Opinions | Modified Opinions | Disclaimer of Opinion |
|-------------------|-------------|---------------------|-------------------|-----------------------|
| Ba                | 2014 -2017  |                     | 2                 | 2                     |
| Labasa            | 2014 -2017  |                     | 4                 |                       |
| Sigatoka          | 2014 – 2017 | 3                   | 1                 |                       |
| Rakiraki          | 2014 - 2017 |                     |                   | 4                     |

The Committee was advised that a high number of modified and disclaimer of opinions issued is a matter of serious concern because of the following:

### 1.1 Modified opinions

The audit opinions of the Councils were modified due to the following:

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

### 1.2 Unmodified opinions

For the Council issued with an unmodified audit opinion on their financial statements meant that there were no material misstatements noted following the OAG audit.

### 1.3 Disclaimer of Opinion

For those Councils that were issued with a Disclaimer of Opinion, the auditors have indicated that there are material misstatements in the financial statements that were so pervasive and that no opinion was issued.

## 2.0 Financial Reporting

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

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

The Committee noted that the assessment of the operating results and net assets were based on the actual results of the councils audited accounts.

## 2.1 Financial Performance

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

The Committee found in the audit report that there were mixed results of the OAG assessment made on these councils, and overall 50% or two councils had positive net results average over the four-year period while one council had a loss situation for continuous three years and one council had continuous loss for two consecutive years.

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

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

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

Further, also noted in the report that the Sigatoka Town Council had made a deficit and continuous for two consecutive years now and shows signs of increased risk of financial sustainability.

## 2.2 Financial Position

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

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

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

Sigatoka Town and Rakiraki Town Council's net assets have declined over time. The significant increase in the net

assets of the Rakiraki Town Council in 2017 is the result of a misstatement of government grant which was reported as income instead of deferred grant as liability. If the correct accounting treatment was done then the Rakiraki Town Council would have a declining net assets in 2017 as well.

## 3.0 Internal Controls

### 3.1 3.1 Internal Control Assessment

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

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

In the audit, the OAG had high level review of the Control environment which found the following gaps:

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

The audit noted that whilst the Councils may be performing some of the internal controls these were not documented to ensure that these activities were being carried out.

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

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

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

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

The Committee was advised that a deficiency occurs when internal controls are unable to prevent, detect or correct errors in the financial statements or where controls are missing.

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

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

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

The OAG in its audits found that the following key control issues:

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

**3.1.4 Information and Communication Control (IC)** – information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives.

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

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

The Committee noted that the auditors found that during the audit none of the councils have an independent Internal Audit function in place to assist in strengthening the implementation of internal controls and provide valuable advice on other operational matters.

## **3.2 Common findings – Internal Controls**

The Committee noted that internal control deficiencies that were identified were communicated to the municipal councils through the OAG management letters. Common internal control weaknesses relate to the following key

components:

- 1) Cash management
- 2) Procurement of goods and services
- 3) Payroll
- 4) Asset management
- 5) Revenue Management

## 4.0 Other Significant Matters

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

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

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

### 4.1 Common Findings

The Committee was informed that the following findings were communicated to the Municipal Councils by OAG through the Management Letters and they relate to the following:

#### 4.1.1 Corporate Governance

The Committee noted that the Municipal Councils did not have appropriate Corporate Governance Structure in place. This included the following:

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

#### 4.1.2 Financial Reporting

Whilst some Council showed improvements in updating their financial statements, errors and misstatements were still prevalent in their reporting requiring audit adjustments and in some cases resubmission of the financial statements. The findings were in relation to:

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

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

#### 4.1.3 Revenue Management

The Committee noted that the audit highlighted the lack of appropriate records for various revenue streams of the Councils to ensure that the revenue derived and recorded in the financial statements are accurate. Common issues across the councils are as follows:

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

## 4.2 Other Findings

#### 4.2.1 Ba Town Council 2015 - 2017 - Rubbish Dump Fees

The Committee noted that an instance with the Ba Town Council where it charged rubbish dump fees based on the tons of rubbish estimated by the Health Inspectors through observation of the amount of rubbish in trucks. There is a fixed schedule of rates based on the number of tons of rubbish which is charged to businesses for the use of Maururu Dump.

However, on that regard estimation which was done by Health Officer through observation can be subject to high degree of human error and as a result correct rate may not be applied which can result in loss of potential revenue of the Council. The Council has stated that having a weigh bridge will be costly exercise and they will continue to explore the best option to address this dump fees levied.

#### 4.2.2 Rakiraki Town Council 2014 – 2016 – Interest revenue

Pursuant to Section 78 (2) of the Local Government Act 1972, it stated that ***“Any rates which are overdue shall bear interest at the rate of \*7 percent per annum and such interest charged shall be included in the expression “rates”; the Minister may by order vary the rate of interest”***.

The Council did not charge interest on overdue rates in the financial years 2014 to 2016 in accordance with the requirements of the Local Government Act. The Committee reemphasise that the Council need to charge the interest in accordance with the Local Government Act 1972.

#### 4.2.3 Rakiraki Town Council 2014 – 2017 – Revenue recorded on cash basis

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

The Committee was informed that the Council is currently progressing with the introduction of MYOB system.

#### 4.2.4 Increasing Trend of Rate debtors – 2014 - 2017

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

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

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

The Committee is hopeful that with more consultations and awareness programmes between the Councils with the Ratepayers on the importance of paying the rates on time for better and efficient service delivery, which in turn will result in the reduction of outstanding rate debtor balances throughout the Councils.

#### 4.2.5 Ba Town Council 2014-2017 - Appointment of Special Administrator

The audit noted that the position of the Ba Town Council's Special Administrator resigned from the position with effect from 13 July 2013 and as remain vacant as of the date of this audit.

In the absence of the Special Administrator, the responsibility to make the decisions for the council was on the Chief Executive Officer. This has resulted in loss of independent oversight of Council's operations. However, a new Special Administrator was appointed in 2019 which also looks after Lautoka City Council.

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

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

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

The Council advised the OAG that these records were destroyed following Cyclone Winston.

#### 4.2.7 Rakiraki Town Council 2015 – Allowance for Former Acting Special Administrator

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

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

#### 4.2.8 Anomalies in the Capital Fund Account – Sigatoka Town Council

The Committee noted in the audit report that in the financial year 2011, the Council had deposited a sum of \$795,200 in the Capital Fund bank account which was received from Morris Hedstrom (MH) in relation to the purchase of MH land and rates due from the land.

Also noted that in a letter dated 28/03/2013, the Ministry of Local Government had required the Council to provide reasons the money was still held by the Council when it was meant to repay its loan from the bank. The Council responded to the letter on 10/04/2013 and requested approval from the Ministry to use \$500,000 to repay loan and the balance of \$295,200 to be used for Council's general operations.

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

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

#### 4.2.9 Sigatoka Town Council 2017 - Special loan rates

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

- (a) Such special rates so levied shall not in the aggregate exceed 5 cents in the dollar on the unimproved value of any rateable land within the municipality".
- (b) Also noted that pursuant to Section 59(3) of the Local Government Act states that, "***Moneys raised on a special rate shall be accounted for separately in the books of council and such moneys shall not be used for any purpose than that for which the rate is imposed***".

The Committee found in the audit report that the review of the loan rates revealed the following anomalies:

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

In this regard, the anomalies noted above resulted mainly from non-compliance with the requirements of the Local Government Act.



## 5.0 Audit Summary

The Committee in its review on the audit conclusion noted the following issues:

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

## **RECOMMENDATIONS**

The Committee after reviewed the audit report and consulted the four (4) Municipal Councils in consensus agreed to the following recommendations:

- 1. All Municipal Councils to adopt Open Merit Recruitment System (OMRS) in its recruitment process and the Ministry to assist and ensure its implementation so that all human resources/work flow (operational) related issues are addressed.**
- 2. An internal audit unit to be establish within all Municipal Councils to address pertinent internal control issues and ensure transparency and accountability within.**
- 3. Councils should urgently formulate and implement Risk Management policies and Disaster Recovery plans. Since most Councils operate in disaster prone areas, it becomes very important that these documents can assist in mitigating risks and preparing Councils in advance of any impending disaster.**
- 4. Restructure be taken place in all Municipal Councils so that it could operate like any corporate body of Government.**
- 5. Any developments by any stakeholders within each Council should be a requirement to have all rates cleared before any development permit approval is issued.**
- 6. All Municipal Councils should have a Standard Operating Procedures and this should be facilitated by the Ministry of Local Government and also clearly specify the roles and responsibilities for the Chief Executive Officer and the Special Administrator.**
- 7. Municipal Councils should have regular consultations with all its stakeholders so that everyone contributes in the development of towns and cities.**

## **CONCLUSION**

The Public Accounts Committees notes the general audit issues identified in the four (4) Municipal Councils that is, on the quality and timeliness of financial reporting, internal control issues and other significant issues.

Therefore, the Committee looks forward to the Ministry of Local Government with the four (4) Municipal Councils to urgently consider the recommendations outlined so that all issues that are highlighted is addressed in a timely manner.

We, the undersigned Members of the Standing Committee on Public Accounts agree with the contents of this report:



.....  
**Hon. Alvick Maharaj**  
**(Chairperson)**



.....  
**Hon. Joseph Nand**  
**(Deputy Chairperson)**



.....  
**Hon. Vijendra Prakash**  
**(Member)**



.....  
**Hon. Ratu Naiqama Lalabalavu**  
**(Member)**



.....  
**Hon. Aseri Radrodoro**  
**(Member)**

# **APPENDICES**

**APPENDIX 1:  
PUBLIC ACCOUNTS COMMITTEE QUESTIONS**

# **PUBLIC ACCOUNTS COMMITTEE**

## **QUESTIONS**

### **MINISTRY OF LOCAL GOVERNMENT**

**The Local Government Act requires that financial statements must be prepared by 31<sup>st</sup> May and published by 31<sup>st</sup> August. Generally from the report, the Councils are not adhering to the requirements of the Local Government Act 57 (1) and Section 57 (3). Why is that and what actions has the Ministry taken to address this issue?**

1. Why is the Council unable to meet the requirements of the Act?
2. What is the Council solution to the problem of delays in the preparation of financial statements to be audited?
3. Do Finance Officers understand and are well versed with International Financial Reporting Standards for Small Medium sized entities?
4. What is the Council doing to address the gaps in competency of finance staff to meet the requirements of the Act?
5. Unsupported balances and un-reconciled variances formed the basis of modified audit report, what are the root cause of these problems and what has the Council done to improve on the maintenance and safe keeping of financial documents
6. What assistance or direction has the Ministry of Local Government provided to assist the Municipal Councils with meeting the requirements of the Local Government Act?

### **MUNICIPAL COUNCILS**

**The Local Government Act requires that financial statements must be prepared by 31<sup>st</sup> May and published by 31<sup>st</sup> August. Generally from the report, the Councils are not adhering to the requirements of the Local Government Act 57 (1) and Section 57 (3).**

7. Why is the Council unable to meet the requirements of the Act?
8. What is the Council solution to the problem of delays in the preparation of financial statements to be audited?
9. Do Finance Officers understand and are well versed with International Financial Reporting Standards for Small Medium sized entities?
10. What is the Council doing to address the gaps in competency of finance staff to meet the requirements of the Act.
11. Unsupported balances and un-reconciled variances formed the basis of modified audit report, what are the root cause of these problems and what has the Council done to improve on the maintenance and safe keeping of financial documents
12. What assistance or direction has the Ministry of Local Government provided to assist the Municipal Councils with meeting the requirements of the Local Government Act?

**Common findings of the report noted weaknesses relating to cash management, procurement of goods and service, payroll, asset management & revenue management and are noted to be high risk areas.**

1. What is the Council doing about tightening controls over cash and revenue management?
2. Is there an internal audit function that constantly checks and report on Internal control systems?
3. What monitoring mechanisms are there in the Council to ensure controls are in place and are functioning as they are supposed to?
4. Does the Ministry of Local of Government provide any monitoring roles or checks on the governance and controls at the Council? If yes, how often?

5. Are standard operating procedures prepared and approved? If yes, are they up to date to reflect current business activities of the Council?
6. Financial reporting issues highlighted the weakness in the financial management, what has the council done to improve? Recruitment of finance staffs that are capable and knowledgeable must be considered.

### **Roles of the Council noted issues on increasing trend of trade debtors**

1. What is the current debt recovery process of the council and how effective is this process?
2. What Rates records management system is in-place and how else can the Council leverage technology to improve on the maintenance of these records? Future plans for rate payers database etc.
3. Operational deficits have been raised as well in the report, how is the Council functioning and able to meet day to day operations with the straining cash balances?
4. Outstanding TINs from parking meter infringements, which were issued on LTA tickets/ receipts, how is the council recording these outstanding fees? Will they be payable to LTA when receipted?

## **Section 3.0: Results of Audit**

### **3.1: Audit Opinion Results - (Ba/Labasa/Rakiraki)**

The Auditor General has issued modified audit report and disclaimer of opinion for 2014-2017 audit. What has the Council done to deal with the issues which has resulted in Auditor General issuing these opinions.

### **3.4: Results Summary – (All Councils)**

Auditor General in his report has indicated that the quality and timeliness of the draft financial statements were ineffective. The Auditor General further states in his Conclusion that the Council has capacity and competency issues regarding the preparation of the financial statements in accordance with the Applicable Accounting Standards. How are you addressing this issue?

## **Section 4.0: Financial Reporting**

### **4.1: Financial Performance – (Labasa/Rakiraki/Sigatoka)**

Auditor General has raised concerns on the trend of the operating deficit of your council. This can be an issue of financial sustainability. What are the reasons your council is operating in deficits. How are you addressing this issue?

## **Section 5.0: Internal Controls**

### **5.3: Results Summary – (all Councils)**

Auditor General has concluded that overall the internal control system of your council is ineffective which a serious issue is. What have the Council done so far or what are you doing to implement effective internal control system in your Council?

## **Section 6.0: Other Significant Matters**

### **6.1: Common Findings**

#### **6.1.1: Corporate Governance – (All Councils)**



Auditor General has highlighted issues of lack of appropriate Corporate Governance structure in our council. This includes absence of:

- (i) Internal Audit function;
- (ii) Risk Management Policies;
- (iii) Standard Operating Procedures; and
- (iv) Disaster recovery and business continuity plans

What have you done to address these issues highlighted by Auditor General?

### **6.1.2: Financial Reporting**

Issues highlighted by Auditor General indicates is that there is lack of appropriate personnel to carry out financial reporting. This issue is ongoing and why has the Council allowed this to escalate?

### **6.1.3: Revenue Management – (All councils)**

What approach have you taken to improve on the revenue management as highlighted by the Auditor General?

### **6.2: Other Findings – (for respective Councils as stated)**

What is the status and the corrective actions taken to resolve the issues highlighted by the Auditor General? Discuss reasons for any un-resolved issues?

**APPENDIX 2:**  
**Witnesses, Verbatim Reports and Published**  
**Written Evidences**

## **Witnesses & Verbatim Reports**

There were a number of witnesses that had appeared before the Public Accounts Committee. Copies of the verbatim report can be viewed from the Parliament website on the link provided: <http://www.parliament.gov.fj/committees/standing-committee-on-public-accounts/>

## **Published Written Evidences**

Copies of the written evidences and supplementary responses from the 4 Municipal Councils is available on the parliament website on the link provided: <http://www.parliament.gov.fj/committees/standing-committee-on-public-accounts/>