

VIII. Issues and Recommendations

This chapter presents the issues and recommendations that are associated with gaps or weaknesses in accounting and auditing arrangements. These recommendations are intended to supplement and support existing strategies and projects. This study concludes that—while Fiji Islands’ accounting and auditing arrangements generally compare well with those of other countries—improvements could be made in two broad areas:

- Preemptive legislative and institutional actions could strengthen **financial reporting arrangements**. These actions include enhancing disclosure requirements and monitoring compliance with those requirements.
- Together with other PDMCs, the Fiji Islands lacks appropriate **professional certifications for bookkeepers and accountants**—particularly those in the public sector. To this end, this study recommends establishing appropriate Pacific-wide professional certifications for bookkeepers and accountants.

The issues and recommendations are divided into two parts as follows.

- Part One: Where the matter referred to may be considered and, if any action is to be taken, this would be better achieved with external assistance.
- Part Two: Where the matter referred to may be considered and, if any action is to be taken, this may be achieved without external assistance.

Part One. Where Donor Assistance Might be Appropriate

1. Strengthen Accounting Standards and Financial Disclosure Requirements

The Accounting and Auditing Standards Committee (AASC) of the Fiji Institute of Accountants (FIA) develops accounting and auditing standards. These standards are approved and promulgated by the Institute’s Council. The AASC mainly comprises academics, and financial statement preparers and auditors. Furthermore, Fiji Islands’ legislation is largely silent on the basis for financial statement preparation—for instance, the *Banking Act 1995* does not refer to Fiji Accounting Standards (FASs).

It is **recommended** that assistance be provided to develop legislation that: (i) accords legal status to the AASC; (ii) prescribes the Committee’s

composition and appointment processes—the composition should reflect a balance of constituency views; (iii) recognizes FASs; and (iv) stipulates the use of FASs in preparing financial statements.

2. Enhance Financial Disclosure Monitoring

Legislated financial disclosure requirements are generally consistent with international norms, in terms of timing and publication. Evidence also suggests that listed company and public enterprise compliance with accounting standards compares well with other countries.

The AASC is responsible for monitoring the application of FASs. However, in the face of resource constraints, the current focus on upgrading accounting and auditing standards to international levels, an absence of clear legislative support, and a reliance on volunteers, the Institute has been unable to perform this role. The Institute's Corporate Plan envisages this role being strengthened. The Ministry of Public Enterprises and Public Sector Reform (MOPEAPSR), the Reserve Bank of Fiji (RBF) and the Ministry of Finance and National Planning (MOFANP) also have monitoring roles. But, in some cases, a lack of suitably skilled personnel and critical mass undermines the effectiveness of their monitoring activities.

It is **recommended** that assistance be provided to develop a financial disclosure-monitoring regime, under FIA auspices. This project would involve: (i) defining and agreeing the organizations to be included in the regime, for instance, listed companies, publicly accountable organizations (e.g., government companies, and statutory authorities and boards); (ii) designing and agreeing a suitable monitoring and penalty regime; (iii) preparing legislation and regulations; (iv) assisting FIA to establish the function; and (v) developing operational materials and training reviewers in their usage. Particular attention should be given to specialist materials (e.g., financial institutions and insurance companies).

It is further **recommended** that public and private sector accountants be seconded to the FIA monitoring function on short-term bases to undertake the financial statement reviews. Secondees would gain sound experience in the application of accounting and accounting standards and with financial disclosure requirements. Given the 'public good' nature of this function, it is also **recommended** that the Government consider appropriating funds to support ongoing operations.

3. Review and (if necessary) Strengthen Auditing Practices

FIA's *Corporate Plan 2001-2006* indicates an intention to review auditing practices—auditor independence and objectivity are arguably undermined through the provision of non-audit services. It is **recommended** that the FIA comprehensively review auditing practices and arrangements (including auditor appointment and dismissal; auditor independence; auditor reporting requirements; and auditor liability). Should this review identify a need to strengthen these practices through legislation, it is further **recommended** that assistance be provided to develop legislation that strengthens auditing arrangements.

4. Introduce Quality Assurance Mechanisms

FIA's *Corporate Plan 2001-2006* indicates an intention to introduce quality assurance procedures. To this end, it is **recommended** that assistance be provided to design, develop and implement a quality assurance regime that is appropriate to Fiji Islands' conditions.

5. Develop Appropriate Bookkeeping and Accountancy Certifications

There are, in essence, three professional accountancy groups within the Fiji Islands: FIA members, government accountants, and Registered Tax Agents. But—even as a whole—the profession struggles to retain critical mass, let alone meet development challenges.

Furthermore, the requirements for FIA Chartered Accountant membership currently fall short of international guidelines in two respects: (i) the absence of a professional examination; and (ii) lower-than-expected requirements for Continuing Professional Education (CPE). However, the FIA *Corporate Plan 2001-2006* envisages that these issues will be addressed.

Most critically, government accountants do not have adequate or appropriate professional qualifications or representation. This will be essential if the revived Financial Management Reform (FMR) project is to be successful.

The establishment of suitable bookkeeping and accountancy certifications would provide: (i) stepping stones to higher professional qualifications; (ii) measures to gauge competence to undertake bookkeeping and accountancy tasks; and (iii) professional career targets. They would also provide a framework for a cohesive training program for government accounting personnel.

Other PDMCs also lack appropriate bookkeeping and accountancy certifications and professional representation. A Pacific-wide accountancy certification framework, which allowed for differing legal and taxation environments, would overcome the critical mass challenge that impedes development of accountancy personnel (particularly in the public sector).

It is **recommended** that assistance be provided to: (i) support a comprehensive review of bookkeeping and accountancy skills needs within the public and private sectors; (ii) design a framework of professional qualifications that is appropriate to the needs of both sectors in the Pacific and Fiji Islands' environment; (iii) establish the professional bookkeeping and accountancy qualifications; and (iv) develop licensure criteria and examinations for each qualification. This may require legislative amendments (e.g., *FIA Act 1971*).

6. Implement Training Program for Government Accountants

The Government recognizes the need for suitably skilled and experienced accountancy personnel. To this end, it has raised entry and promotion criteria. It is also encouraging incumbents to undertake further education. It is **recommended** that assistance be provided to: (i) design training programs that are appropriate to the qualification framework; (ii) develop associated materials; and (iii) train trainers in the delivery of these courses.

Part Two. Where External Assistance is Not Required

7. Extend the RBF Supervision Regime to All Financial Institutions

The Reserve Bank of Fiji's (RBF) supervision role does not explicitly extend to two significant financial institutions: the Fiji Development Bank (FDB); and the Fiji National Provident Fund (FNPF). While these institutions do not generally issue to the public, it is essential that they be appropriately supervised, given their socioeconomic importance. It is **recommended** that all financial institutions be covered by RBF's financial supervision regime.

8. Educate IASB on the Fiji Islands Differential Reporting Approach

International Accounting Standards (IASs) have been developed on a one-size-fits-all basis. For instance, IAS 19 (Employee Benefits) requires that

actuarial valuations be undertaken of certain employee benefits (such as long-service leave). These valuations must be conducted whether the reporting organization is a corporation that is listed on the Frankfurt Stock Exchange or a small non-listed manufacturing organization in Karachi. In April 1998, a project to examine the reporting requirements for small and medium-sized enterprises was added to the International Accounting Standards Board (IASB) agenda—however, no progress has been made to date and further activity has yet to be determined by IASB. In the meantime, the UN Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has developed proposals to provide a model framework for national accounting regulators that will cover the whole range of accounting entities from the one-person business through to the listed company. The Fiji Islands has developed a simple, workable approach to differential reporting that offers smaller organizations (that are not publicly accountable) relief from the more onerous accounting standards. It is **recommended** that the FIA formally advise IASB of its approach of allowing the differential application of FASs.

9. Retain Focus of OAG Activities

The Auditor General has made laudable progress in strengthening the skills and qualifications of government audit personnel. The Public Service Commission and the MOFANP have supported these efforts. However, the Office of the Auditor General (OAG) continues to lose staff to emigration and to the private sector—30 staff were lost following the events of May 2000. In the face of capacity constraints, the OAG's mandate may soon be broadened to include “audits” of environmental impact assessments. Other proposals to widen the OAG's operational scope include auditing additional entities, auditing grant recipients, and conducting performance audits. Given existing constraints, it is **recommended** that the OAG remain focused on developing capacity to conduct financial attest audits.