

## VI. Accounting and Auditing Practices in the Fiji Islands

### 1. Challenges and Responses

Investment has been very low in the Fiji Islands for many years: private investment averaged only 5 percent of GDP in the 1990s. The major constraints to Fiji Islands' financial sector development have been identified as: (i) an inadequate economic environment; (ii) public sector domination; (iii) excessive government regulation; (iv) land tenure and leasing problems; (v) cultural and communal concerns; (vi) inadequate human resource skills; (vii) considerable government intervention in the financial sector; (viii) a need for standardized accounting practices; (ix) slow capital market development; (x) money and bond market distortions; (xi) inadequate market supervision; (xii) outdated corporate and bankruptcy laws; (xiii) constraints on the Fiji Development Bank (FDB); (xiv) constraints on microfinance; and (xv) education and training shortcomings.

Accountability breakdowns in the core public sector continue to make headlines. Most recently, it has been alleged that the Agriculture Ministry misused \$8 million.<sup>59</sup> In particular, it appears that civil servants ignored procurement, appropriation and accounting rules.

Government has publicly declared that curbing corruption and other unethical behavior is an integral part of its effort to promote transparency, integrity and good governance, and has announced several responsive measures. Furthermore, among other things, government announced—in the 2002 *Budget Address* and in the 2002 *Economic and Fiscal Update*—that it would:

- Establish a *Financial Intelligence Unit* to counter money-laundering practices.
- Reactivate the suspended Financial Management Reform (FMR) program. These reforms will be phased over a number of years, taking into account technical and human resource capability.
- Strengthen public enterprise reforms by continuing to divest shareholdings in selected enterprises, and improving the efficiencies, accountabilities and performances of public enterprises and statutory agencies, through the *Public Enterprise Act 1996* and the new *Public Finance Management Act (PFMA) 1999*.

---

<sup>59</sup> Sydney Morning Herald. 2002. Fiji Government Dogged By Agricultural Scandal. 16 January.

## 2. Accounting and Auditing in the Fiji Islands

Public sector-led growth was emphasized following independence in 1970. Amidst growing dissatisfaction, the Fiji Islands began to move towards a more open, market-oriented economy in the early 1990s. This move provided impetus for better accounting arrangements and improved financial disclosure.

The economic losses that were incurred when the NBF nearly collapsed emphasized the importance of good financial disclosures, sound corporate governance practices and robust banking supervision arrangements. In response: (i) the supervision of financial institutions was raised to international standards; (ii) a strengthened monitoring regime has been introduced for public enterprises; and (iii) financial disclosure requirements have been raised through the introduction of IAS-compliant accounting standards.

The 'Fiji Islands' Accounting System' is strongly influenced by British and more recently by international arrangements and practices. However, many aspects of the system are dated. With regards to financial disclosure, a recent study that examined compliance with Fiji Accounting Standards (FASs) favorably concluded that:

“the extent of non-compliance identified in Fiji does not appear any greater than that found in Australia, New Zealand, the United Kingdom and the United States. This is in spite of a weak monitoring system and lack of sanctions at the disposal of the Fiji Institute of Accountants (FIA).”<sup>60</sup>

The effectiveness of accounting and auditing arrangements is undermined by the ongoing emigration of skilled accounting personnel. This trend accelerated following the events of May 2000. Consequently, many accountancy positions are vacant or are filled with less-than-suitably-qualified and experienced personnel. The problem is particularly acute in the core public sector, which is generally unable to pay accountants at prevailing market rates.

The Auditor General heads the Office of the Auditor General (OAG), which is the SAI of the Fiji Islands. To be effective, an SAI must be staffed with well-qualified and experienced professionals. The Ministry of Finance

---

<sup>60</sup> Pathik, Kushilliya. 1999 December. *Extent of Non-compliance with Fiji Accounting Standards: A Survey of Public Companies and Statutory Authorities*. University of the South Pacific: Unpublished Manuscript. p. iv.

and Planning (MOFANP) and the Public Service Commission have supported the OAG's efforts to strengthen its capacity—the OAG now offers competitive pay rates—at least for entry-level positions. Moreover, the minimum qualification requirement for OAG auditors has been raised—all recent OAG recruits are accounting graduates. The Auditor General actively encourages existing staff to undertake tertiary studies and professional training. These efforts have been successful—whereas the OAG employed just three graduates in 1996—70 percent of staff now hold qualifications. The Auditor General intends that all staff will be qualified by 2003.

### **3. Professional Infrastructure**

The Public Accountants Registration Board was established in 1963 to register and supervise accountants. But it had limited supervisory powers and was ineffective in developing the Fiji Islands' accountancy profession. Registered accountant numbers grew from just 13 in 1963 to only 40 by 1970. In response to lobbying from practicing accountants, government approved the *Fiji Institute of Accountants (FIA) Act 1971*.

The FIA was subsequently established and now has around 500 members in six categories: chartered accountants in public practice, chartered accountants, provisional members, affiliate accountants, licensed accountants and student members.

The Institute conducts CPE activities and has recently reached agreement with CPA Australia and the Institute of Chartered Accountants of New Zealand (ICANZ) on CPE course delivery within the Fiji Islands. Furthermore, the FIA Annual Congress—which was first held in 1973—is not only a landmark event on the Fiji Islands' business and government calendar, but provides almost half of the Institute's revenue.

Today, despite its small size and limited resources, the Institute has developed into a strong and effective professional body. Its success is attributable to a small hard core of dedicated professionals with extensive support from the larger accountancy firms.

But the Fiji Islands' accountancy profession faces two major challenges. First, not only does the continued emigration of qualified accountants—which accelerated after the events of May 2000—have considerable social and economic implications, it also directly affects FIA's ability to maintain critical mass and saps the Institute's resources. Second, globalization has brought about major changes in professional requirements and in accounting and auditing standards. While these changes are largely transitory, the FIA must respond within its limited resources. To this end,

the Institute has developed, and started implementing, a *Corporate Plan*. The Plan details six key result areas and associated action plans.

Registered Tax Agents (RTAs) are registered with the *Tax Registration Board* (TRB) of the Fiji Islands Revenue and Customs Authority and advise clients on taxation matters. Some RTAs also provide accountancy services to small businesses. However, RTA qualification requirements are currently quite low, but FIA—through its representation on the TRB—is supporting moves to improve these requirements.

The 1987 turmoil triggered an exodus of professionals from the Fiji Islands' public sector. In recognition of the need to strengthen public sector financial management, significant efforts have been made in the past five years to professionalize the government accounting cadre. The 1998 founding of the Institute of Public Sector Accountants of Fiji is one such initiative. The institute convenes an annual conference and provides some support for professional training activities for members.

#### **4. Accounting and Auditing Standards**

The FIA began issuing non-mandatory *Recommendations on Accounting Practice* shortly after its establishment. The first FAS was issued in 1976. There were 28 FASs by 1998. These FASs were primarily IAS-based, but had an Australian or New Zealand influence where the Institute considered this suitable for Fiji Islands' conditions.

FIA's Accounting and Auditing Standards Committee (AASC) recommends the promulgation of accounting and auditing standards to the Institute's Council. The Council approves and promulgates standards. In January 1999, the Council agreed (in principle) to adopt IASs and ISAs as the basis for completely revised sets of Fiji Accounting and Auditing Standards. To this end, a comparative review of IASs and FASs began in November 1999 and was completed in 2001 with revised IAS-compliant FASs being issued.

Three FAS-related issues deserve attention. Other DMCs should be encouraged to examine the Fiji Islands' approach. First, the IASCF holds exclusive copyright over IASs. In this respect, the FIA has negotiated a license for their usage. Second, FASs include a section that clearly identifies differences from the IAS text. Third, the IASB has been working on developing a differential financial reporting regime since 1998—in the Fiji Islands, only the more complex FASs apply to larger and publicly accountable organizations.

With the release of the revised FASs, priority has now shifted to reviewing ISAs and IAPs for their application in the Fiji Islands. By January

2002, the AASC had reviewed 26 of the existing ISAs and IAPs. The exercise should be completed by December 2002 after which the AASC intends to realign Fiji Standards on Auditing (FSAs) and Fiji Auditing Practice Statements (FAPSs) with ISAs and IAPs every three years.

## **5. Education and Training**

There is high and increasing demand for accountancy education, particularly since the events of May 2000. Among other things, this reflects: (i) well-paying employment positions that emigrants have vacated; and (ii) the international acceptability of accountancy qualifications.

The Fiji Islands' accountancy education infrastructure comprises three key domestic institutions: the University of the South Pacific (USP), the Fiji Institute of Technology (FIT) and the Fiji National Training Council (FNTC). Each plays a different role.

Established in 1968, USP has 12 member countries: Cook Islands, Fiji Islands, Kiribati, Marshall Islands, Nauru, Niue, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu and Vanuatu. USP's distance education program delivers academic courses throughout the member countries.

USP's Department of Accounting and Financial Management is recognized for its high academic standards: it offers undergraduate and postgraduate degrees in accounting and financial management. While the number of students being taught by the Department is increasing rapidly, the Department faces problems filling vacancies—the net effect is that Student-Staff ratios have deteriorated significantly in the past two years.

FIT provides technical and vocational education and training. FIT's School of Commerce had around 1,700 Equivalent Full Time Students in 2001. There has been a noticeable increase in the number of public sector accountants undertaking courses during the past four years.

FNTC is a tripartite body, comprising representatives from government, employers and employee unions. FNTC contracts training providers—such as Western Sydney Institute of Technology of New South Wales—to provide a variety of accounting courses.

A plethora of foreign (mainly Australian and New Zealand) education providers have established operations in the Fiji Islands. These institutions offer technician-level accountancy qualifications. While the quality of education offered by some of these institutions has been questioned—given their small size and limited resources (for instance, library materials)—their qualifications are extremely attractive due to the inherent emigration possibilities.

In the public sector, government appears committed to strengthening the qualifications and skills of accounting personnel. Civil servants performing accounting duties must successfully complete public service examinations prior to their employment or promotion. This requirement is waived where the officer has a recognized academic qualification (for instance, a USP accountancy degree). The examination syllabi differ from those for academic accountancy qualification.

In 2000, the Permanent Secretary for Finance established the MOFANP Training Committee on the basis that “there is an urgent need to update the qualifications and skills of existing staff especially in view of the upcoming reforms, technological advancement and changing management needs. Strategically, they must be equipped with appropriate skills and basic qualifications to enable them to meet the challenges of professionalism with efficiency, effectiveness, innovation and independence.” The Training Committee has developed a Training Policy, but recognizes that a thorough training-needs analysis must first be conducted to determine training requirements in relation to: (i) organizational needs; (ii) occupational needs; and (iii) individual needs.

## **6. Government Budgeting and Accounting**

The Fiji Islands has a large and pervasive public sector, with high and growing public debt levels. The 2002 Budget signaled a significant loosening of fiscal policy with the intention of supporting higher levels of economic growth.

A cash basis of accounting is used in central government. However, the Government has signaled its intention to move to the accrual basis of accounting in the medium term. To support improvements, the government has procured, and is implementing SAP, a complex computer system. It will be progressively implemented over a period of some years.

The government accounting / finance cadre comprises several levels. Appointments and promotions are based upon experience and civil service examinations (the examination requirement is waived where personnel hold relevant academic qualifications). Few members of the accounting cadre hold formal accounting qualifications and—as of 31 December 2001—only 15 civil servants were full FIA members.

Government is placing increased emphasis on training and has indicated that significant numbers of accountants will be recruited and deployed within the public sector. But, in addition to losing staff to overseas emigration, the public sector must also compete with the private sector, which also has a shortage of accountants and bookkeepers.

The key changes under the FMR program include: (i) the availability of more accurate, reliable and timely information to support sound decision making; (ii) new banking and cash management systems; and (iii) the adoption of a new *Public Finance Management Act* (PFMA). The former Prime Minister suspended the original FMR program in August 1999, ostensibly due to concerns about implementation capability and pace. The broad strategy for revived FMR implementation is to implement the SAP software on a cash basis and then gradually move to accrual accounting and decentralization of input controls. However, the renewed FMR program is not starting from scratch—when the program was suspended in 1999—most ministries and departments had already prepared balance sheets and forecast financial statements, and had specified and costed outputs.

## 7. Donor Assistance

In comparison to other Pacific DMCs (PDMCs), the Fiji Islands is not heavily aid dependent. Studies of aid effectiveness have reached differing conclusions. On one hand, a Pacific-wide review contended, “... aid was judged to have been unsuccessful in facilitating growth. Aid had supported large public sectors and involved TA that financed line positions without leading to durable capacity building.” On the other hand, a Fiji Islands-specific empirical analysis concluded that bilateral aid, grant aid, and technical cooperation grants have had a significant impact on economic growth in the Fiji Islands. Conversely, the same analysis found that domestic resources did not contribute significantly to economic growth in the Fiji Islands. Whatever the case, many assistance projects were disrupted, curtailed or suspended following the events of May 2000.

To 31 August 2001, ADB had provided 13 loans totaling \$161.1 million and TA grants totaling \$18.9 million, since the Fiji Islands joined ADB in 1970. ADB is supporting broad governance activities through TA and loans. Directly relevant activities include:

- Ongoing support to the Pacific Financial Technical Assistance Center (PFTAC). ADB provided \$2.76 million support to PFTAC during 1994–2001.
- Proposed TA: 33129-01: *Institutional Strengthening of the Capital Market Development Authority (CMDA) and South Pacific Stock Exchange (SPSE)* (\$200,000). This project is intended to support the development of an effective capital market in the Fiji Islands through building the capacity of the CMDA and the SPSE.

- TA No. 3436: *Fiji Development Bank (FDB) Review* (\$150,000: 2000–2002). This TA will: (i) evaluate FDB performance and procedures; (ii) identify operational obstacles; and (iii) provide recommendations for future improvements to best match with government development perspectives and to make FDB financially self-sustainable and functioning within sound banking practices.
- TA No. 3408: *Preparation of a Medium-Term National Development Plan* (\$150,000: 2001–2002). This project is assisting the MOFANP to prepare a medium-term national development plan that presents government policies and strategies, together with performance indicators. A secondary objective is to formulate a medium-term capital expenditure program.
- TA No. 3391: *Strengthening Debt Management* (\$150,000: 2000–2002). This project is assisting the MOFANP to improve the debt management function from macroeconomic, institutional, financial and data management perspectives.
- TA No. 3242: *Public Enterprise Reform Program (Phase II)* (\$600,000: 2000). This TA supported public enterprise reform efforts, including the development of capacity, particularly in accounting, financial analysis, economics, commercial valuation, corporate governance and privatization.
- TA No. 3155: *Strengthening Public Enterprise Reform (Phase I)* (\$150,000: 1999–2000). This TA supported capacity building in the Department of Public Enterprises concerning policy analysis, formulation and execution capacities for public enterprise reforms.
- TA No. 2463: *Institutional Strengthening of the OAG* (\$550,000: 1996–1997). This project supported improvements to OAG procedures and practices.
- TA No. 2399: *Institutional Strengthening of Fiji Electricity Authority (FEA)* (\$450,000: 1995–1996). This TA supported an examination of FEA’s operational efficiency before its corporatization and commercialization.

The **World Bank** has not directly focused on improving financial governance arrangements over the past few years. The United Nations Development Programme (UNDP) has supported improvements to the Fiji Islands’ aid coordination mechanism and contributes to the PFTAC. The Suva-based PFTAC advises PDMCs on budget management, tax administration, banking supervision, balance of payments, and national accounts statistics. The IMF manages PFTAC; funders include ADB, AusAID, IMF, NZAID and UNDP.

The Australian Agency for International Development (**AusAID**) is supporting significant projects in the health, education and community-based sectors—these projects include aspects of financial management. In relation to core financial governance, AusAID is providing long-term assistance (1999–2004) to improve Fiji’s revenue base. Furthermore, the Fiji Institute of Accountants’ *Corporate Plan 2001-2006* was developed with assistance from AESOP Business Volunteers (partially supported by AusAID).

The EU, through the *National Indicative Program*, is concentrating on human resources development and environmental issues. With regards to financial governance, EU is focusing on strengthening vocational training institutes, and improving planning and management capabilities in the national administration. New Zealand Agency for International Development (**NZAID**) provided support for the suspended FMR program—particularly advice on the development of the enabling legislation; the *PFMA 1999*.

## **8. Issues and Recommendations**

The study identified 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. Where actions are already planned or underway—for instance, upgrading information systems—no recommendations are made. Issues are separated into: (i) those that are able to be resolved without external assistance; and (ii) those that are better able to be resolved with external assistance.

The study concludes that while Fiji Islands’ accounting and auditing arrangements compare well with those of other countries, improvements could be made in two broad areas:

- Preemptive legislative and institutional actions would 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.

Each study recommendation—and the issues that it is intended to address—is summarized below. The Fiji Islands DSAA report provides further detail.

## Strengthen Accounting Standards and Financial Disclosure Requirements

The AASC develops accounting and auditing standards. These standards are approved and promulgated by the FIA Council. The AASC mainly comprises 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 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.

## 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), Reserve Bank of Fiji and 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 the necessary 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 government consider appropriating funds to support ongoing operations.

### **Review and (if necessary) Strengthen Auditing Practices**

FIA’s *Corporate Plan 2001-2006* indicates an intention to review auditing practices. 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.

### **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.

### **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 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 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 support: (i) 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.

### **Implement a Training Program for Government Accountants**

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.

### **Extend the Reserve Bank of Fiji Supervision Regime to All Financial Institutions**

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

### **Educate IASB on the Fiji Islands Differential Reporting Approach**

IAS has 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). 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 to allowing the differential application of FASs.

### **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 MOFANP have supported these efforts. However, the OAG continues to lose staff to emigration and to the private sector. 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.