

# THE FIJI *Accountant*

OCTOBER 2011

JOURNAL OF THE FIJI INSTITUTE OF ACCOUNTANTS



## Investment & Growth

**Whistle  
Blowing**

**Accounting  
for Goodwill**

**2012**

**National  
Budget:**

**FIA Submission**

**Proposed Draft  
Income Tax Decree:  
FIA Submission**

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This 'Fiji Accountant' is published by the Fiji Institute of Accountants



Atunaisa Nadakuitavuki



## Ni sa bula vinaka

We trust you find this issue of The Fiji Accountant Journal interesting and enjoyable reading.

We feature articles covering areas of significant importance and that are of interest to all our readers.

The Theme for this issue is "Investment and Growth".

Members who engage in research and publications are encouraged to submit articles which may be of interest to other members.

This Journal is also accessible through the Institute website [www.fia.org.fj](http://www.fia.org.fj)

Thank you for your support, and happy reading.



P12

## In this issue

President's Message	2
Cultural Implication of Whistle-blowing	3
IFAC News: <i>Changing roles and employer expectations define areas of competency for professional accountant in business</i>	7
CAPA News: <i>The Regional Accountancy profession calls for greater transparency</i>	8
Literra Issue 1 & 2	10
Corporate Profit and Impression Management in Developing Markets	12
FNU Accreditation	17
Letters to the Editor	18
Accounting for Goodwill	19
Fiji Economic Update - September 2011	23
Challenges to Foreign Direct Investments	28
2012 National Budget: FIA Submission	31
Proposed Draft Income Tax Decree Review: FIA Submission	34
Education, Membership & Admission Report	37
Business and Government Law Review Report	38
Membership of Committee (2011-2012)	39
Thirty Ninth Annual Congress	40
Profile	43
New Membership	44



P29



P36



P40



P42

# President's Message



I am humbled to provide a message to the members in this issue of The Fiji Accountant.

As I set about writing my message, I kept reflecting on the theme for this edition of the Journal; *“Investment and Growth”* and had a startling revelation as if Congress 2011; *“Partners for Investment & Growth”* was somehow a precursor to the initial public offering of companies such as Future Forest Fiji.

As you begin to read this edition of The Fiji Accountant, the National Budget for 2012, would be just about ready for announcement by the Government.

You will be glad to note that the Institute has made a comprehensive submission to the Government for the National Budget 2012 which has been uploaded to the FIA website. The submission focused on promoting investments and economic activities, reforming the public sector, developing the agricultural potential including food security and energy alternatives, promoting Small and Micro Enterprises (SMEs), and improving the tax regime.

I thank most sincerely the Institute's Business and Government Committee which has worked closely in consultation with FRCA in making the submission.

The Institute is acutely aware of the value and relevance of professions to Fiji's economy. The Institute, through its Marketing and Promotion Committee, has been present at careers expos and open days at several education institutions from June to September this year in an effort to raise awareness of the accounting profession.

The Institute has also just completed the accreditation exercise of the three universities in Fiji, thanks to Professor Keith Houghton of the Australian National University.

This means that all three universities of Fiji now provide quality accounting education to students, not only for membership of the Institute, but also for employers in search of good graduates. I commend the Education, Membership and Awards Committee for working tirelessly in completing this important exercise of the Institute.

Speaking of education, the professional Development Committee has been working assiduously to deliver two seminars and a technical workshop with interesting topics between June and September this year. I must commend employers who regularly invest in their people [and our members] by sending them to seminars and technical workshops of the Institute. By imbibing a culture of lifelong learning you are contributing to the growth of your people vis-à-vis your organisation and the economy.

The Institute has launched its new newsletter, the *Littera*, published in between the issues of the Institute's Journal which provides members snapshots of key developments at the Institute. I hope you are finding it a pleasurable read.

This edition of The Fiji Accountant is being published under the command of Atunaisa Nadakuitavuki, the new Chair of the Journal Committee.

I hope you will find this edition informative and enjoyable.

Happy reading!

Vinaka

**Divik Deo**  
**President**



# Cultural Implications of Whistle-blowing

By: Rashika Kumar, Arvind Patel, Sherlin Raju, School of Accounting & Finance, The University of the South Pacific

The act of whistle-blowing came into prominence when two women blew the whistle on corporate financial fraud in two of the largest corporate frauds in the US history. Sherron Watkins of Enron and Cynthia Cooper of WorldCom were responsible for exposing the senior management of their companies for manipulating the financial records. Another woman, Coleen Rowley of the FBI, blew the whistle on the management at the FBI Office.

All these women had nothing to gain but everything to lose and yet had the strength to blow the whistle.

Whistle-blowers are not seen as team players in any organisation and are in fact labeled as traitors. They are marginalised and frequently have to leave their employment. Since the Enron debacle, there is now, law in the US, the Whistleblowers Protection Act 2001, which provides protection for whistle-blowers.

## Whistle-blowing Defined

Keenan (1990) and Near and Miceli (1995) have defined whistle-blowing as an act which involves employees reporting illegal, immoral and illegitimate practices, under the control of their employers, to parties internal or external to the organisation who can take action. Whistle-blowing has a broad spectrum. It is neither limited to reporting of wrongdoings in the private sector nor restricted to reporting of corrupt practices in the public sector. Olander

(2004) defines a whistle-blower as any employee of an organisation or company who voices concern about the organisation in an effort to correct the perceived wrongdoing. Such employee can either be a current or a former employee, or even a consultant.



Watkins, Rowley, Cooper  
*Time Persons of the Year 2002*

## Types of Whistle-blowing

There are two types of whistle-blowing: internal and external. Internal whistle-blowing occurs when the observer reports the wrongdoing to an internal party in the entity, such as their supervisor or a party above their supervisor, whereas external whistle-blowing refers to reporting of wrongdoings to external parties outside the organisation, such as the media, regulators, the government and the public. Peer-reporting can be conceptualised as a type of whistle-blowing in which the wrongdoings done by the member of an organisation are reported to outside parties or the seniors by a peer within the group itself.

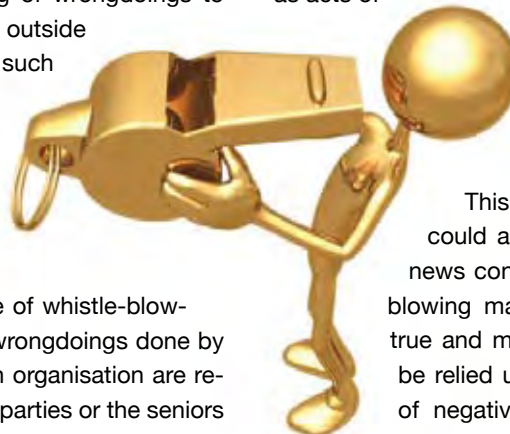
Dozier and Miceli (1985), Trevino and Victor (1992), Weber (1993) and Brennan and Kelly (2007) have classified the role of whistle-blowers and the act of whistle-blowing as 'dichotomous', that whistle-blowers are considered as 'rats', 'moles', traitors, spies, betrayers, disloyal and unethical employees on one hand, and as loyal and ethical employees, and even heroes, on the other. The act of whistle-blowing can also be classified as a 'pro-social' behaviour which is a positive social behaviour that is intended to benefit other people such as the other employees, stakeholders and

the society as a whole. Whistle-blowing, however, cannot be totally altruistic in nature as the whistle-blower will benefit from whistle-blowing to some extent.

Additionally, whistle-blowing can be classified as a 'gratuitous act' of an employee outside the official responsibilities and obligations and in some cases have also been described as acts of

revenge towards an entity by engaging in public (external) whistle-blowing.

This, to some extent could also mean that the news conveyed by whistle-blowing may not be entirely true and may not be able to be relied upon. These types of negative whistle-blowing paint a cynical image of the



concerned entity and could be a reason as to why many firms do not encourage whistle-blowing.

### The Whistle-blowing Process

Miceli, Near and Schwenk (1991), Near and Miceli (1995) and Brennan and Kelly (2007) regard whistle-blowing as a process rather than an event. The first step involves the recognition of the wrongdoing, that is, whether the employee/observer is aware of the wrongdoing. The second step is to determine if the wrongdoing requires any intervention, that is, is it intolerable? The third step is to decide whether the observer is responsible for taking any action. If yes, the observer will take an action and if no, then that's the end of the process. The fourth step is to determine what actions are available and then weigh the costs and benefits of each action, that is, whether to whistle-blow or not to whistle-blow. The final step is to decide whom to report the matter (an internal or an external party).

### Culture and Whistle-blowing

Several studies indicate that culture is an important factor in the practice of whistle-blowing (Patel (2003) and Chiu (2003)). The study by Patel (2003) indicates that Chinese-Malaysian and Indian accountants are more likely not to whistle-blow to avoid organisational conflict, compared to Australian accountants, who display a more individualistic nature and are therefore more likely to whistle-blow to expose their bosses.

The Chinese-Malaysian and Indian accountants accept the paternalistic leadership styles where the laws and rules differ for superiors and subordinates. Since the hierarchical order is common and unchallenged in families and organisations, the superiors' actions would require less whistle blowing in justification their cultures and thus, the Indian and the Chinese societies is less acceptable and there is a less likelihood

## Corporate Governance Framework™



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of subordinates using whistle-blowing to expose their superiors' wrongdoings.

Chiu (2003) further states that what is considered ethical in one culture may be classified as unethical in another culture. One culture may see the need to whistle-blow while another culture will prefer to remain silent. According to Chiu (2003), the Chinese are reluctant to blow the whistle as they anticipate negative reactions from their peers.

They fear being accused of disloyalty to the company, not being grateful to the employer, not being a team player and not being considerate of other members' feelings.

However, due to the baptismal effect of western management influences in Malaysia, employees working and living in urban cities have become more materialistic, egoistic and individualistic. Thus, they are likely to support whistle-blowing acts because they see this as a means of maintaining fair play in a highly competitive market, but a Chinese employee will only whistle-blow as a last resort.

## Corporate Governance and Whistle-blowing

The recent corporate collapses triggered an increased focus in the area of corporate governance. It has been stated that good corporate governance can be achieved by having independent audit committees, boards of directors, corporate governance committees and effective internal auditing. However, none of these arrangements consider whistle-blowing to be a mechanism that could lead to effective corporate governance within an entity. To increase whistle-blowing, organisations will need to proactively set structures that will encourage such behaviour.

A 'whistle-blowing committee' which comprises of independent parties to deal with whistle-blowers would provide more security for employees to report on corrupt practices. However, the set-up of whistle-blowing committees can be regarded as a costly activity for the firm in terms of remuneration to members on such boards. This again adds to the reluctance of firms in embracing whistle-blowing.

On the other hand, Near and Miceli (1995) and Patel (2003) indicate that whistle-blowing is the cheapest and most effective monitoring device that any entity could have in identifying, reducing and eliminating wrongdoings and corrupt practices. Via whistle-blowing, every employee's performance will be monitored by another employee and thus the internal control of the entity will be strong. Moreover, the existence of the whistle-blowing policies, cases reported and so forth could assist the auditors in determining the level of internal control and audit risk prevalent in an entity.

### How is Whistle-blowing Related to Auditing?

In auditing terms, both the internal and the external auditors face ethical dilemmas such as conflicts of interest when they become aware of any wrongdoings in the auditing process, function or acts committed by employees in their entities or in their clients' businesses. In the fear of losing their existing clients, the



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*Will you be ready when the whistle blows?*

audit partners may sweep the junior auditor's concerns (if reported) under the carpet.

The audit firms are also hesitant to whistle-blow as they face conflicts of interest in releasing confidential client information to third parties. This would not only amount to a breach of confidentiality under the auditor engagement letter, but could also expose the audit firm to litigation risks. Additionally, the audit firms would be regarded as 'whistle-blowing' firms, which could then give them a negative publicity. Therefore, when auditors and auditing firms encounter wrong doings, they start facing ethical dilemmas and conflicts of interest, which eventually lead them to weigh the costs and benefits of whistle-blowing. At times, this has led both the auditors and the audit firms to remain silent and issue misleading audit reports.

Limited audit practice guidance on reporting wrong doings and providing legal protection to auditors encourages low quality audits. The collapse of Arthur Anderson and the National Bank of Fiji is still fresh in our memories, and if regulators do not act in time, repeat of such events in future are more likely.

Any regulation formulated by the government or structures implemented by organisations for the practice of whistle-blowing in the Pacific Island Countries (PICs) need to consider the effect of culture on whistle-blowing. Then only, could whistle-blowing become an effective mechanism to combat wrongdoings and corrupt practices within entities and societies having diverse cultures, and in particular the PICs.

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The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) today published *Competent and Versatile: How Professional Accountants in Business Drive Sustainable Organizational Success*, which supports the global accountancy profession in responding to changing

expectations of society, financial markets, and organizations, and promotes the value of professional accountants in business to their organizations.

Organizational needs are evolving faster than ever, and professional accountants need to adapt to these changes to best serve their employers, and maintain relevance and public trust. With this new publication, the PAIB Committee is striving to support the global accountancy profession and help its members guide their organizations to create sustainable value.

“In today’s tough global economic climate, organizations can fail because their drive for short-term success causes them to overlook factors vital for their long-term survival,” commented Roger Tabor, IFAC PAIB Committee chair. “So, in *Competent and Versatile*, we focus on achieving



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success that can be sustained. Professional accountants have the right instincts and tools to help their organizations maintain the right balance to do this. But they must—and can—be adaptable to new challenges and supported in this by their professional associations.”

This publication identifies eight drivers of sustainable organizational success—what organizations need to do to achieve and sustain success in light of opportunities and challenges in the business environment. These drivers are the focus of organizations striving to achieve lasting success, and, therefore, provide a basis for determining the expected key areas of competency for professional accountants in business.

This employer-driven approach is aimed at helping the global accountancy profession facilitate sustainable organizational success through the education, training, and

development of professional accountants. The publication, and accompanying employer-focused brochure, is intended to support IFAC members and associates in understanding and promoting the diverse contribution of professional accountants in business as creators, enablers, preservers, and reporters of sustainable value.

### About the PAIB Committee

The PAIB Committee serves IFAC member bodies and professional accountants worldwide who work in commerce, industry, financial services, education, and the public and not-for-profit sectors. Its aim is to promote and contribute to the value of professional accountants in business by increasing awareness of the important roles professional accountants play, supporting member bodies in enhancing the competence of their members, and facilitating the communication and sharing of good practices and ideas.

### About IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 164 members and associates in 125 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.

## The regional accountancy profession calls for greater transparency

30 August 2011

[www.capa.com.my](http://www.capa.com.my)

“There are simply no reasons for standards of financial reporting to differ between the private and public sectors” according to the Confederation of Asian and Pacific Accountants (CAPA.) “If the public are entitled to high quality, transparent financial information from companies, upon which to base investment decisions and hold them to account, then so too they are entitled to the same standard from governments and public sector organisations entrusted with public monies and similarly offering securities for investment.”

The President of CAPA, Professor In-Ki Joo, is keen to see improvements in public sector financial reporting and financial management. “The International Public Sector Accounting Standards (IPSAS) Board has now been in existence for over fifteen years, and quality accounting standards, very similar to International Financial Reporting Standards (IFRS) applicable to companies, are readily available for use in the public sector. There are no excuses. Just about all countries globally have or are about to introduce IFRS for companies, but the adoption and implementation of IPSAS by governments is not as far advanced.”

CAPA point to a number of countries having adopted or made a decision to adopt IPSAS, as have some major global institutions, such as the United Nations, European Commission, OECD and NATO. Some other countries, including the United States, United

Kingdom, Canada, Australia and New Zealand, are all advanced in applying accepted high standards. However, it still leaves many countries where the “the preferred minimum of an accrual basis of accounting” is either not in place or not widespread.

The growing number of sovereign debt concerns arising around the world should give a push to the growing momentum. A sovereign debt crisis highlights the inadequacies of systems that are anything less than transparent and that fail to provide a basis for accountability. Further, systems built on high quality standards provide the required basis for successful decision-making.

CAPA recently staged a successful high-level conference and roundtable on ‘Improving Public Sector Financial Management’ in Seoul, Korea, attended by over fifteen countries, and supported by the World Bank and Asian Development Bank. A number of countries face some challenges in terms of available resources to lead and manage the necessary changes, though a larger obstacle is often the political will to set about the change.

What is becoming increasingly evident, often as a result of a sovereign debt crisis, is that governments need to establish a clear picture of the value of their assets and liabilities, all of them, and manage them accordingly. And the public is crying out for transparency and accountability.

CAPA has issued a supporting Position Statement.

### About CAPA

The Confederation of Asian and Pacific Accountants (CAPA) is a Regional Organisation representing national professional accounting organisations (PAOs) in Asia Pacific. Over 1 million accountants are represented by these PAOs.

CAPA’s mission is to develop, co-ordinate and advance the accountancy profession in the Asia Pacific region.

There is a growing international movement to improve financial reporting in the public sector. Improving the quality of financial reporting in the public sector is viewed as critical in addressing huge risks, such as unexpected sovereign debt crisis situations that may remain obscured when robust accounting and reporting techniques are not used. CAPA’s position statement in this area supports accrual-based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position.

# CAPA POSITION STATEMENT

## Improving Public Sector Financial Management

The Confederation of Asian and Pacific Accountants (CAPA) fully supports and encourages the convergence towards International Public Sector Accounting Standards (IPSAS) by all member countries in the Asia/Pacific region to assist in the improvement of public sector financial management.

Users of financial reports produced by the private sector have, for many years, demanded and supported the development of globally accepted high quality financial reporting standards. These users have included regulators and central government agencies. This has resulted in an increasing number of countries adopting and implementing IFRS as the financial reporting norm for the private sector.

Concurrently there is a growing international movement to improve financial reporting in the public sector. This has resulted in many countries initially adopting cash based accounting; moving to a more sophisticated accrual basis for financial reporting; and finally a

number are adopting and implementing accrual based IPSAS.

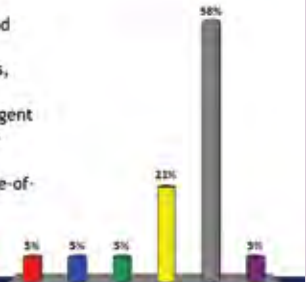
Improving the quality of financial reporting in the public sector is viewed by CAPA as critical in addressing the huge risks, such as unexpected sovereign debt crisis situations that may remain obscured, when robust accounting and reporting techniques are not used in the public sector.

From a public interest perspective the more effective monitoring of financial performance within public sector entities is critical. CAPA supports accrual based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position.

Achievement of this ensures that the same high standards of financial reporting are applied by both the private and public sectors of an economy – thus

Of the countries that have adopted the Accrual IPSAS, which requirements do you consider the most difficult?

1. Accounting for Property, Plant and Equipment
2. Accounting for Employee Benefits, especially Defined Benefit Plans
3. Accounting for Provisions, Contingent Liabilities, and Contingent Assets
4. Accounting for Intangible Assets
5. Preparation of consolidated whole-of-government General Purpose Financial Statements
6. Other



IPSAS accrual most difficult

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leading to better informed decision making at both the micro and macro levels.

CAPA therefore calls for governments in the Asia/Pacific region to fully recognise the need for robust financial systems, and to lead changes in public sector accounting and reporting to support enhanced public sector financial management.

## LETTER TO THE EDITOR

The Fiji Accountant Journal welcomes letters from readers in response to articles published as well as those concerning issues of general interest to the accounting profession.

The editors reserve the right to edit letters for clarity and length. Writers should include their contact information, including telephone number and an e-mail address, if possible.

Letters may be addressed to Letters to the Editor, The Fiji Accountant Journal, G.P.O Box 681, Suva or to [fia@connect.com.fj](mailto:fia@connect.com.fj)



Welcome to the Institute's new newsletter to keep you informed on key developments and events of the Institute in between issues of our quarterly journal, *The Fiji Accountant*. "Littera" is the Latin word for message; brief yet informative and the Institute hopes that you will find Littera to be the same.



# LITTERA

ISSUE 1, JULY, 2011

MEMBER UPDATES AND SNAPSHOTS OF KEY DEVELOPMENTS

OFFICIAL NEWSLETTER OF THE FIJI INSTITUTE OF ACCOUNTANTS

Welcome to the Institute's new newsletter to keep you informed on key developments and events of the Institute in between issues of our quarterly journal, *The Fiji Accountant*. "Littera" is the Latin word for message; brief yet informative and the Institute hopes that you will find Littera to be the same.

## Minister responds to Prime Minister's speech

Minister Commodore Voreqe Lomavatu's critical and hard-hitting speech at the Accountants Congress has been taken in good faith by the Institute. However, the Institute believes that a response to the Prime Minister's speech is necessary to clear any confusion regarding accountants in the profession.

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It also noted that the Institute was effectively dealing with cases of complaints against its members. On the formation of an Independent Financial and Auditing Services Commission (IFASC), the letter stated that FIA had no strong objection of the establishment of an independent body to hear complaints against accountants in relation to professional conduct, but would advocate that such a body be assisted by professional accountants as assessors and advisers on issues relating to the accountancy profession. FIA wished to meet the PM to brief him in a more detailed manner about the Institute and the accounting profession.

## Houghton to review and undertake accreditation

The Fiji National University (FNU) to see the progress on accreditation-related compliance work undertaken by FNU following his assessment last year. Should the progress at FNU be satisfactory then the accreditation process would be accelerated leading to FNU's Degree in accounting courses being recognised by the FIA.

Through independent bodies, the FIA frequently performs accreditation of accounting courses available through the universities so that it meets FIA's quality requirements.



Houghton

## New Council Member

Mr. Nadakuitavuki Atunaisa was elected as Council member to fill a vacancy in category B (CA) membership of the Council. Mr. Nadakuitavuki is the Deputy Auditor General in the Office of the Auditor General. He will be the chair of the Journal Committee. He was elected at the Annual General Meeting on 10th June at Shangri-La Fijian Resort.



Nadakuitavuki

## New Standards

The International Accounting Standards Board (IASB) has recently produced four new International Financial Reporting Standards (IFRS). These are IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, and IFRS 13 *Fair Value Measurement*. The new standards will now be considered by the Standards Committee for review and adoption by the Institute.

## Award is back!

The Young Accountant of the Year Awards will be back this year with a revised awarding strategy and prizes. The top categories in this award are the Young Accountant and Chartered Accountant of the Year. More on this will be announced later.

## Reaching out to students

In its efforts to create more awareness of the accounting profession the Institute participated in an exhibition at the Careers Expo last month organised by the Latter Day Saints at the LDS College in Tamavua.



The half day fair was attended by students from secondary schools in the Suva area.

FIA Secretariat together with Hannah Smith of KPMG, Swastika Devi of Ernst & Young, Rakesh Gupta of PwC, Ronesh Dayal and Leonard Chan of BSP Colonial and, Divik Deo of Vodafone Fiji were present to promote the profession to students and answer their questions.

## New Admissions

The Institute welcomes the following new members who have satisfactorily completed their academic and/or professional year and mentoring requirements for membership.

### Chartered Accountant

Mr. Alistair Brown - Curtin University  
Mr. Rohitesh Chand - Reserve Bank of Fiji

### Provisional Member

Mr. Ashneel Achari - Ernst & Young  
Mr. Samuel Edwin Brown - Telecom Fiji  
Mr. Tealofi Enosa - Tuvalu Communications Corporation  
Ms. Vishika Arun Gohil - Ernst & Young  
Mr. Navin Krishna Reddy - Total (Fiji) Ltd  
Ms. Rohini Ranjini Singh - IUCN

# LITTERA



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# LITTERA

ISSUE 2, A

MEMBER UPDATES AND SNAPSHOTS OF KEY DEVELOPMENTS

OFFICIAL NEWSLETTER OF THE FIJI INSTITUTE OF ACCOUNTANTS

Littera is the Latin word for

## IFRS for Small & Medium Enterprises

The FIA has adopted the IFRS for Small and Medium Enterprises (SMEs) for financial periods beginning 1 January 2011. The standards will apply to many reporting entities in Fiji.

IFRS for SMEs, issued by IASB, is a self-contained standard, estimated to account for over 95 percent of all companies around the world.

Compared with full IFRSs the IFRS for SMEs is less complex in a number of ways.

Topics not relevant for SMEs are omitted, for example, earnings per share, interim financial reporting, and segment reporting.



Tuinamuana

Many principles for recognising and measuring assets, liabilities, income and expenses in full IFRSs are simplified.

Chairperson of the Standards Committee Sikeli Tuinamuana said that members needed to heighten their awareness and understanding on IFRS for SMEs even though efforts have been made to acquaint the membership of its provisions through technical conferences and seminars organised by the Professional Development Committee. A pocket-guide for IFRS for SMEs is available at: [www.iasplus.com/dt/pubs/1004pocketsmes.pdf](http://www.iasplus.com/dt/pubs/1004pocketsmes.pdf)

## Universities undergo review

Professor Keith Houghton has completed the review of USP and FNU's accreditation for FIA's education requirements for membership. He said his findings on the progress made by the two universities were very encouraging. When accredited, FNU will become another key supplier to the Institute's membership along with USP and UoF. Houghton's formal report and recommendations to the Education, Membership and Awards Committee will be available as soon as the review of UoF is completed.



Houghton

## Admissions

It is with pleasure that the Council announces the admissions of the following members to the Institute in respective membership categories.

### Chartered Accountant

Vikash Pranil Chand - Office of the Auditor General.  
Pranil Rakesh Lal - Coca-Cola Amatil (Fiji) Ltd.

### Provisional Member

Sanket Kumar Bhavesh - PwC  
Kiran Jagdigh Khatri - PwC  
Selvin Kishore - Reserve Bank of Fiji  
Pratin Lal - G Lal & Co  
Alvin Maharaj - Telecom Fiji Ltd  
Nainasa Naleqagobe Whippy - Self Employed

### Affiliate Accountant

Nilofar Bibi - Tappoo Ltd  
Atish Alvin Prakash - Ernst & Young

## IFAC Code of Ethics 2010

After being postponed, the workshop to brief partners of the smaller, mainly single partner, CA firms about the provisions in the 2010 version of the IFAC Code of Ethics (Code) will be held in August. The two-hour workshop will discuss the additional provisions regarding "independence".



Gandhi

Acts & Rules Committee chairperson Nitin Gandhi said the revised code is a significant improvement to the previous one which dates back to June 2005.

He said the revision strengthens the independence requirements for auditors. In the case of audit engagements, it is in the public interest and, therefore, required by the Code, that members of audit teams, firms shall be independent of audit clients where independence comprises independence of mind and independence in appearance.

In dealing with any potential impairment to audit independence, the code requires a professional accountant to identify threats to independence; evaluate the significance of the threats identified; and apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

When the professional accountant determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the professional accountant shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit engagement.

The Code is the global ethics code issued by the IFAC International Ethics Standards Board for Accountants (IESBA).

## UPCOMING EVENTS

### Mentoring Seminar

The Real Estate Market Seminar  
Claim up to 2 ½ CPE Hours  
RBF Tower 11, Suva: 23 August  
Presenter: Mr. Joe Singh

The Revised Companies Act Seminar  
Claim up to 2 ½ CPE Hours  
RBF Tower 11, Suva: 16 August  
Presenter: Ms. Lisa Apted, Partner KPMG

The seminars are open to members as well as non members for a fee of \$35 and \$50 respectively.

## LITTERA Quest

Answer this question and get into a draw to win one year's subscription for Harvard Business Review.

In which year was the FIA founded?

Email your answer with your name and the organization you work for and, with email subject "My FIA" to [fia@connect.com.fj](mailto:fia@connect.com.fj)

Entries close August 31, 2011  
The winner will be announced either in the next edition of The Fiji Accountant or Littera.

## LITTERA

Littera is the official newsletter of the Fiji Institute of Accountants, distributed to all members via email.

Publisher: Divik Deo  
Editor: Verleshwar Singh

For Further information visit our website [www.fia.org.fj](http://www.fia.org.fj) or call us on 330 5807 or visit us at 3 Berry Rd, Suva

## Concessions

efforts," said Deo.  
lls for incentives and industries which have further employment, economic activities.  
e micro and SME economy. This due attention, d Deo.

ally promoted es, however, these needs challenges e effective ion plans the short ment of

ational

## Corporate Plan Review

The Institute's Corporate Plan framework for the Institute's direction will be due for a shortly. Nitin Gandhi, the of the Corporate Plan committee said that the review will evaluate the targets set in 2008 after recommendations to make changes to the plan will be made.

## Outreach Continues

The Institute continued its awareness drive on the accounting profession this time, at the St. Joseph Secondary School Alumni Millennium Decade Careers Expo held on the July 28. The Secretariat, with the help of Swastika Devi of Ernst & Young, Leonard Chan and Ronesh Prasad of BSP attended to some 600 inquisitive students. The Institute was also represented at the USP Open Day on August 5. It will again be at USP on August 13 to present a seminar on Accounting writing CV and how to prepare for a job interview.



the Institute in this premier event that the theme is apt considering fastest growing region in the world

Congress visit:

nittee has begun preparations held from the 7-10th of invites your comments and

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# CORPORATE PROFIT AND IMPRESSION MANAGEMENT IN DEVELOPING MARKETS

By Dr. Acklesh Prasad, Glen Finau and Jale Samuwai, School of Accounting and Finance, The University of the South Pacific.

## 1. INTRODUCTION

In this study, we examine how organisations in Fiji communicate or legitimise their profit. We base the need for understanding this phenomenon on the following premise. Organisations are part of a wider society, and in competition for scarce resources. Organisations obtain the rights to consume resources upon conception, but must continually legitimise their rights of existence and the need to access the resources. Legitimacy is the ability to continue to justify one's authority to exist in a society. Organisations rights to resources are contractual, and have a moral obligation to act in a responsible manner and justify their outcomes, actions, and activities to external stakeholders. Failure to consider such justification may lead to sanctions imposed by society, which can include legal restrictions, limited access to resources and product boycotts. Thus, organisation's justifications would be an attempt at legitimising their existence by some form of impression management. Impression management refers to the process by which individuals attempt to influence the impression of others (Melo et al. 2009). In corporate reporting, impression management occurs when management selects, display, and presents that information in a manner that distorts readers' perceptions of corporate achievements (Neu 1991; Patten 2002), and is managed best through disclosures. (O'Donovan 2002).

In developing economies, there is significant government protection that creates near-monopoly sectors and industries. The rendered protection permits organisations to provide essential services to the community at reasonable



*"Impression management refers to the process by which individuals attempt to influence the impression of others."*

costs. Organisations in these sectors and industries have an unanimous need to legitimise their position and actions. The bond between the organisations and the society is much stronger, making organisations devote more effort in communicating their activities. Protection permits organisations to make reasonable profits to sustain their operations. Society may not accept abnormal profits from operational efficiencies. Profit is fundamental to the society's perception of an organisation, amplifying the need for the firm to justify a level of profit. Abnormal profit for organisations would make relevant disclosures to manage stakeholder impressions on profit (Patten 2002). Organisations can manage impressions by disclosing information in a particular way. That is, organisations would want to put the impression that the

abnormal profit is justified and the society will obtain its benefits in the future. Such forms of impression management require unambiguous disclosure of information. The readability of corporate disclosures is an important indicator of organisational abnormal profit-related legitimacy efforts in developing economies.

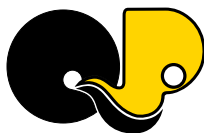
## 2. OUR BASIS AND PREDICTIONS

Legitimacy perspective in business focuses on the role of information and disclosure in the relationship between organisations, the State, individuals and groups perceptions. This perspective suggests that organisations do not have any rights to resources, but exist because a particular society considers that they are legitimate, and it confers upon the organisation the state of legitimacy. That is, management will adopt various strategies to legitimise their actions or status. This





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perspective is especially pertinent in developing economies. Organisations value systems must be congruent with the value system of the larger social system of which it is a part. Any actual or potential disparities between the organisations and societies value systems threaten the organisations legitimacy to belong to the system. Organisations disclosure policies represent an important means by which management can influence external perceptions about their organisations to portray to the society their legitimate rights of continued ownership and use of resources.

Organisations understanding of the ways to gain and maintain legitimacy are of strategic importance to them. Three common strategies adopted by organisations are code adoption, organisational linkages and media perceptions. Organisations endeavour to achieve congruence between their actions and achievements and the expectations of the society. Organisations can educate and inform their society about the changes in the organisational performance and activities, change the perception of the society, manipulate perception by deflecting attention from the issue of concern to other related issues, and change external expectations of their performance to achieve congruence (Lindblom 1994). Organisations facing greater exposure would provide a variety of offsetting disclosures in an attempt to address the increased threat to their legitimacy.

An example may be useful to illustrate how the achievement of abnormal profits may threaten an entity's license to operate and induce the entity to employ legitimising strategies. Consider an entity (XYZ), which has enjoyed a monopoly privilege over its particular industry. In the recent years, XYZ has been increasing the charges for the services they provide. During the same period, XYZ has been achieving abnormal profits, which have come under scrutiny by various groups in society. Customers are complaining why charges are increasing when the organisation is performing well above expectations. Employees of XYZ threaten to go on strike unless they

receive a pay rise. Non-governmental organisations criticize XYZ for being greedy and not considering the plight of the poor. The government, urged by public concerns, considers deregulating the market. The achievement of abnormal profits by XYZ, paradoxically, has attracted significant political costs from different groups in society. Whatever the reason for the abnormal profits, XYZ has incentives to manage these groups perceptions. To change society's



source:www.google.com

negative perceptions, XYZ will attempt to "enlighten" society through various media of communication such as the annual report. XYZ will endeavour to cushion or deflect attention away from the abnormal profit earned by providing more simplified related disclosures. The more readable these disclosures are, the more likely the readers of the report will receive the intended message.

We use these arguments to predict the following relationship between profit and legitimacy-related disclosures in developing economies.

Profit is the key indicator of organisations health. Profit is subject to numerous societal emotions, and it is at the heart of legitimacy controversies (Breton and Côté 2006). In developing economies, organisations operate in a near monopolistic environment for the benefit of the society. This environment permits

businesses to achieve an acceptable level of profit and provide goods and services to the society at a reasonable rent. Abnormal profit must complement a better quality of service or service, at a lower rent. Organisations should also demonstrate that any abnormal profit is a result of a comprehensive strategy. In developing economies, organisations with abnormal profits will adopt ways to manage societal impressions to legitimise this level of profit. Organisations may increase the volume of profit-related disclosures. They may also improve the quality of their reporting to ensure

congruence between the meaning of their message, and the meaning the society derives from their message. In readability terms, organisations in developing economies would attempt to communicate more clearly their abnormal profit level to their stakeholders. This communication is to ensure the society understands what the organisations intends them to understand. Thus, we suggest that the level of profit will positively influence the readability of the disclosures in the corporate annual reports.

Organisations relay their legitimacy mostly through expanded use of non-mandatory disclosures (Warsame et al. 2002). Non-mandatory reporting provides management greater freedom to communicate their legitimacy. Organisations can manage both the volume and the quality of their legitimacy communication through their non-mandatory disclosures. Structured mandatory reporting limits organisations opportunities and freedom to express their information to their intended stakeholders. This situation is despite the fact that most emerging economies have adopted the principle-based accounting standards. Organisations can manage better the readability of their non-mandatory disclosures that allows them to express their legitimacy content in a style that provides equivalence in meaning of the message of the sender and receiver. This outcome will mean that organisations are more likely to manage society's impression

on their level of profit. Organisations that legitimise their abnormal profit will attempt to reduce the incongruence in the reading-ease level of their disclosure and the understanding capacity of the intended recipients of the reports. They can manage this better with their non-mandatory reports than their mandatory reports. That is, organisations legitimacy intentions would be more apparent in their non-mandatory reports than their mandatory reports. Thus, we suggest that the level of profit will have a different positive influence on the readability of the mandatory and non-mandatory disclosures in the corporate annual reports.

Organisations objective for undertaking legitimising actions is contingent upon different contexts that influence the level of public exposure and responsibility attached to them (Merkl-Davies and Brennan 2007). Managers of bigger organisations in sectors with a high public presence make more disclosures in their annual reports to capitalise on their investments in the community and the environment. A number of essential services, despite recent market liberalisation, are still provided, generally, by public enterprises in developing economies. Public enterprises are organisations that have significant government control with Boards of Directors appointed by the government. These organisations regularly report to the country's legislative assembly. Government accords these organisations better protection to ensure they provide essential services like energy and water at a reasonable rent. These organisations have greater responsibility towards the society and they will make intense efforts to legitimise any adverse outcomes compared to the publicly listed companies. Thus, we suggest that the size of the firm will positively influence the readability of the disclosures in the corporate annual reports.

Publicly listed companies offer its securities for sale to the general public. Government also protects the publicly listed companies in developing economies by offering tax benefits and controlling competition to ensure affordability of other essential and some non-essential services. Diversified interest

from individuals, corporate organisations and the Government means that public enterprises have more flexibility with their level of profit. Thus, we suggest that the level of profit will have a different positive influence on the readability of the disclosures in the corporate annual reports of public enterprises and the publicly listed companies.

### 3. THE RESEARCH APPROACH

We obtained data for this study from the corporate annual reports of all publicly listed companies and public enterprises in Fiji. Readability of financial information communicated through the corporate annual report is contingent upon factors like style, content and format of disclosures. The style of disclosure is perhaps one of the most common measures of readability. Word and sentence length measures the style dimension of readability of narrative disclosures in corporate annual reports. Word length is a good indicator of speed of recognition and sentence length determines memory span. The readability formulae are an appropriate tool to measure readability of narrative disclosures. The formulae help to determine the level of synchronisation between the ability of users and the reading difficulty of text. We used Flesch, Fog, and Lix readability indexes to evaluate the readability of corporate annual reports. The Flesch index is a scoring system, which evaluates the readability of text. The Gunning Fog index, developed by Robert Gunning, is one of the simplest and most effective manual tools for analysing readability. The Laesbarhedsindex (Lix) measure considers the average number of words per sentence and the percentage of words of seven or more letters.

Financial data and narrative disclosures were collected from the corporate annual reports of all fifteen listed companies and fifteen public enterprises for a period of five years (2003- 2007) in Fiji. The Chairman's report and the notes to the accounts measure the readability of narrative mandatory disclosures. The Managing Director/Chief Executive's report measures the readability of non-mandatory disclosures. We selected three, one hundred-word passages, from each of these disclosures from annual

reports for the five years. We calculated the Flesch, Fog and Lix readability scores for the passages using readability software. Return on Assets measures firm profitability and total assets are a proxy for firm size.

## 4. RESULTS AND DISCUSSION

Our results indicate that organisations with higher levels of profit have corporate annual reports with higher readability scores. Organisations also leverage the non-mandatory sections of their corporate annual reports to achieve their legitimacy-related objectives. Bigger organisations, in terms of assets base, are also aware of their increased responsibilities, and present more readable corporate annual reports. Larger organisations also leverage the non-mandatory sections of their reports to present readable information. The public enterprises also understand their greater responsibility towards the society, and provide readable reports of their profit outcomes compared to the publicly listed companies. These outcomes imply that profit is indeed a key indicator of organisations' health, and in developing economies, is subject to societal scrutiny.

## 5. IMPLICATIONS FOR PRACTICE

The results of the study have wide implications for practice in developing markets. The implications have both ethical and regulatory dimensions. Firstly, the ethical dimension stems from the invariable involvement of accountants in the compilation of these non-mandatory disclosures. Financial reports are the domain of accountants and non-mandatory disclosures auxiliary to financial reports. The results suggest that organisations perceive non-mandatory disclosures as a strategic tool for engendering legitimacy for higher than normal profit levels. This is especially so for entities in the public sector. Accountants may face a conflict of interest if they believe that the contents of the narrative purport an economic reality different from the truth. The conflict of interest arises from accountants' professional ethical duty to the public and their loyalty to their employer. Accountants will also need to exercise considerable judgment in determining the extent to which narrative





*“...organisations with higher levels of profit have corporate annual reports with higher readability scores.”*

reports manage impressions and the extent these reports seek to deflect rather than inform readers of financial reports. Currently, authoritative guidance on non-mandatory narrative reporting for accountants in developing economies is non-existent. The regulatory implication follows suit in that accounting regulations in developing economies may need to provide more guidance on non-mandatory narratives or limit the discretion available in these disclosures. Regulators could even consider whether the audit opinion should also extend to non-mandatory disclosures. Such regulations have the potential to improve the reliability, accuracy and completeness of non-mandatory disclosures.

## 6. CONCLUSION

Organisations in developing economies consider their implied obligation to be responsible users of resources. Organisations adopt ways to communicate excess retained revenue (profit) clearly to the society. This study's outcomes, perhaps, also imply that organisations are becoming efficient in using the resources. These outcomes are possible as profit is a product of the difference between the cost of the service to the society (rent) and the cost of providing the service by the organisations (consumption of resources). One possible implication of these results

is governments in developing economies may need to impose better controls on the consumption of resources or ease restrictions to liberalise the market. Ultimately, governments must ensure that organisations share any benefits from protected rights of use of resources with the society.

The global economy is placing significant pressure on organisations in all jurisdictions to manage their operations effectively. This pressure requires organisations in developing economies to achieve a balance between earning profits for their sustainability and ensuring that their social contract remains intact. Organisations' profits play an important role in demonstrating their resource consumption and wealth distribution. This study's results demonstrate that organisations in developing economies legitimise their level of profit. This situation is also a positive sign in some way as it demonstrates that organisations give regard to their responsibilities towards the society. This also suggests that organisations in developing economies may be misusing their permission to consume resources. This situation calls for better monitoring, control, and revaluation of the market framework to ensure sustainable consumption of the already scarce resources.

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# FNU GETS THUMBS UP



The President of the Fiji Institute of Accountants (FIA), Mr Divik Deo, is pleased to announce that the Council of the FIA has approved the accreditation of accounting degrees of the Fiji National University (FNU). Like other professions such as medicine, architecture and engineering, the accreditation by professional accounting bodies throughout the world is an important part of the quality control of admitting any new members of the profession. FIA takes the accreditation process seriously, as it is an important part of protecting the welfare of those who use the services of members of the profession. The FNU accreditation is part of a systematic review of all accounting degrees offered

in Fiji. The re-accreditation of both the University of the South Pacific and University of Fiji will be completed later this year. FNU's accreditation process was, however, fast-tracked so as to benefit the students of FNU who are graduating, or have already graduated, prior to accreditation becoming effective. The FIA has sought expert advice to conduct these accreditation reviews from Professor Keith Houghton PhD, FCA FCPA of the Australian National University who has held senior appointments both in the university and business sectors. Professor Houghton said that he was pleased to conduct these reviews. The review contained two commendations – one on the industrial attachments,

that were seen as a positive experience for students, and the other on the dedication and work of FNU's academic staff. There were also eleven suggestions for enhancements, seven of these being conditions for accreditation. In response to the accreditation review, the FNU has put in place many enhancements to its program including development of a new course unit ACC 706, which has a significantly enhanced curriculum and is designed to provide graduates with higher level analytical skills. In co-operation with the FNU, the FIA has negotiated helpful transitional arrangements for those students who will have graduated before the accreditation takes effect. Dean of the College of Busi-

ness, Hospitality and Tourism Studies, Dr Mahendra Reddy, has said that; "The College notes that with the implementation of the recommendations the quality of the Accounting program is much stronger now than prior to the review." Dr Surendra Prasad, Acting Vice-Chancellor of FNU said, "I regard this as an exciting and positive development". Professor Houghton said that he is confident that, with the leadership of Dr Mahendra Reddy, Dean of the College, and Professor Ram Karan, Head of FNU's Department of Accounting, the University will continue to met its ongoing commitment to maintaining academic excellence, as required by the accreditation process.





## LETTERS TO THE EDITOR

*Dear Editor,*

I write to you in regard to my article "Tax Effect Accounting for SME's, which appeared in the June edition of the Fiji Accountant. Since writing the article Fiji's capital gains tax decree has come into effect. This necessitates a small refinement to be made to the analysis offered in the article. with regards to investment properties (referred to in examples 1 and 3). In applying tax effect accounting the accountant will need to consider how the entity expects to secure a return from the asset. If the entity intends to obtain an income from renting /leasing out the property the correct analysis is as shown in the original article. If however the entity plans to sell the property it will realise a capital gain and will be taxed at the capital gains tax rate of 10%. In the case of example 1(e) the deferred tax liability will be \$50. In the case of example 3 the deferred tax liability associated with this investment property falls to \$500. The overall deferred tax liability balance falls to \$5500. There will be an additional reported income of \$750 per year. Thus retained earnings will now be \$65330.

Readers may care to note that in assessing the deferred tax position on all non-current assets it will now be necessary to consider from hereon if an entity plans to realise an asset's value through use (apply the rate of income tax levied on corporations of 29%) or through sale of the asset (apply the capital gains rate of tax of 10%).

**Professor Michael White**  
**USP, Suva, Fiji.**



# ACCOUNTING FOR GOODWILL

## WHY WE DO IT. SHOULD WE DO IT? HOW SHOULD WE DO IT?

By: Professor Michael White, School of Accounting and Finance, USP.

### INTRODUCTION

Accounting for goodwill is an issue that has challenged accountants since the 19th Century. The problem, in part at least, lies in the fact that, like income, we have been reluctant for long periods of time to come to terms with what goodwill really is. However, this has not stopped us from reporting it! The accountant's position is puzzling, as when the issue first emerged serious thought was given to understanding what goodwill was and the purpose for its measurement. It is only in recent years that we have given the thought that this issue deserves again. Definitions offered in the nineteenth and early twentieth century differ from those offered in the twenty-first. The methods of recognition are certainly different. This raises the possibility that our purpose in measuring goodwill has changed over time. In the latter part of the twentieth century, when we appeared incapable of producing a meaningful definition of goodwill, a school of thought developed arguing that goodwill may not exist at all and even if it did, it fails the tests accountants apply in recognising assets. Accounting regulation however preserved the recognition of goodwill in financial reports, but in a highly arbitrary manner.

This paper provides a select history of accounting for goodwill in the hope of providing some insight into commerce and accountants' motivation in reporting goodwill.

### Goodwill: definition without regulation

It would seem that the issue of reporting goodwill first emerged when one, or a group of entrepreneurs operating an entity that was a going concern, wished to retire from business. As the purchaser(s) would then acquire not merely a collection of assets, but an established going concern, the seller was able to vend something more than the net tangible assets. The

operating entity was seen to be worth more than the sum of the parts. This would particularly be true in the case of a professional firm, which may have modest tangible assets, but substantial intangibles by way of established client loyalty. It was in such a context that accounting for goodwill was first practiced. Client loyalty can be established not solely by offering high quality services, but also simply through force of habit on the part of the client, the establishment of a professional-client relationship and the limited or non accessibility of alternatives, i.e. a local monopoly.<sup>1</sup> It is the establishment of client loyalty that prompted Lord Eldon to state in the case *Crutwell v Lye*, "The goodwill which has been the subject of sale, is nothing more than the probability that the old customers will resort to the old place." (Cited by Chambers 1995). Palgrave (1923) provides the following more formal statement, "Goodwill is the expectancy of a continuance, to the advantage of a successor in an established business, of the personal confidence, or of the habit of recurring to the place or premises or to the known business house or firm, on the part of a circle or connection of clients or customers." As the group selling a business and the group purchasing the

business may well have some common members, this client loyalty could clearly be expected to be inherited by the new group of owners. The premium payment made to acquire a going concern over and above the fair value of the net identifiable assets could readily be understood as a payment for a stream of economic benefits that is controlled by the entity and treated appropriately as an asset. Capitalising the goodwill could therefore be seen as reasonable. The following illustrative example demonstrates how this would be done.

### Illustrative example 1

A (equity \$40,000), B (equity \$30,000), and C (equity \$30,000) are in partnership, sharing profits in the ratio 5.3.2. A chooses to retire and D is invited to join B and C in partnership, contributing \$30,000 in capital by way of cash and \$10,000 by way of net tangible assets. A value of \$20,000 is agreed by the four parties for goodwill of the A,B, C partnership and \$5,000 for the goodwill of D's business. Movements in the business' financial position can be summarised as follows:

	Opening balance \$	Goodwill \$	Cash movement \$	Identifiable asset movement \$	Closing balance \$
<b>EQUITIES</b>					
A	40,000	10,000	(50,000)		
B	30,000	6,000			36,000
C	30,000	4,000			34,000
D		5,000	30,000	10,000	45,000
	<b>100,000</b>				<b>115,000</b>
<b>ASSETS</b>					
Goodwill		(25,000)			(25,000)
Sundry net assets	(75,000)			(10,000)	(85,000)
Cash	(25,000)		20,000		( 5,000)
	<b>100,000</b>				<b>115,000</b>

<sup>1</sup>For example, those with an ongoing medical condition generally prefer to consult the same medical practitioner regarding that condition as a matter of convenience. Certain other forms of business may succeed in securing client loyalty by the nature of the way they do business. For example, we think twice before switching banks, not simply because of the short term inconveniences relating to informing contacts of the change, but also because of the loss of a personal history with a primary credit provider.

**Continue...**

Note that the total goodwill is capitalised.

Applying the qualitative characteristic of conservatism (as opposed to prudence) would then see the goodwill written off over the early years of the entity's operations under the new ownership. The rate of write off would probably be determined, not by any attempt to determine how the benefits from inheriting an established business practice had been realised, so much as the amount of profit the owners wished to report in order to justify their drawings! The write off would be charged against the partners' equity interests in the entity on a basis that they deemed to be equitable. The write-off served to remove a negotiated value, as opposed from one observed in a market, from the financial records of the entity over a short, but pragmatically determined period of time. Bryer (1995) points out that such accounting practice was well established in the late nineteenth / early twentieth century in the United Kingdom.

Once accounting for goodwill became subject to regulation, this comprehensive approach to determining goodwill and its subsequent write-off, was replaced by the purchase approach, where only goodwill associated with the acquiree is brought to account. In the balance of this paper, reference to the comprehensive approach to determining goodwill refers to the need to incorporate the goodwill that all parties bring to a business combination. As will be demonstrated, such an approach may serve to address some of the conceptual difficulties we have in dealing with goodwill.

**Goodwill: regulation without definition**

The accounting arrangements for goodwill in non incorporated entities can be, and are, structured to suit the circumstances of the interested parties. The convenience of these parties can be expected to be reflected in the accounting processes employed. In contrast, accounting for goodwill in the corporate sector is driven by regulation. In the mid to late twentieth century, regulation seems to have served as a substitute for definition. Goodwill was discussed in terms of "the present worth or capitalised value of the estimated future earnings of an established enterprise in

excess of the normal results that it might be reasonably assumed would be realised by a similar undertaking established new" (Chambers, op cit citing Yang 1927). Alternatively, goodwill has been 'defined' as "An accounting term used to explain the difference between what a company pays when it buys another company and what it gets in the form of tangible assets." Greenwold (1973). Expressed more bluntly Greenwold is saying that goodwill is "the bit left over of the purchase consideration that is otherwise unexplained", Both statements are clearly measures, not definitions. In framing good regulation

the Standard setting needs to consider, inter alia the need to ensure that the accounting method employed best reflects economic reality. While IAS 22 'Business Combinations'(1998) and comparable standards produced by national standard setters expound at some length on the appropriate accounting treatment of goodwill, they offer no definition. In practice it seems that regulatory bodies in the late twentieth century simply decreed practice, on the basis of Greenwold's "definition". The following illustrative example demonstrates that in so doing they fail to regulate appropriately:

**Illustrative example 2**

The following shows the Statements of Financial Position for Company E and Company F as at 1st January 20x1, when F acquires E.

	E Ltd \$	F Ltd \$
Share capital (\$1 par value)	300,000	200,000
Retained earnings	100,000	50,000
Liabilities	40,000	50,000
Identifiable assets	440,000	300,000

The book value of the identifiable assets of both companies is deemed to represent their fair value. Both companies shares are actively traded at a price of \$1.35, consequently the two companies are deemed to be valued at \$405000 and \$270000 respectively. The acquisition is completed by F issuing 300000 shares to the equity holders of E. Generally accepted accounting practice, as reflected by national regulation and international regulation (initially IAS 22 and currently IFRS 3), overwhelmingly favour Greenwold's "purchase method" of reporting a business combination.

Consistent with this approach the Statement of Financial Position of the combined entity will therefore be as follows,-

	\$
Share capital	500,000
Share premium	105,000
Retained earnings	<u>50,000</u>
	<u>655,000</u>
Identifiable assets	740,000
Goodwill	<u>5,000</u>
	745,000
Less Liabilities	<u>90,000</u>
	<u>655,000</u>

Assuming goodwill really is an asset, it is undervalued in the Statement of Financial Position provided above, as the goodwill inherent in company F of \$20,000 is not reported. Economic reality is not best reflected. The previous shareholders of company E are reported as having brought 61.8% (\$405,000 out of \$655,000) of the net assets to the combined entity, where they have actually only have contributed 60% (\$405,000 out of \$675,000). Had the pre-regulation comprehensive approach been employed, the goodwill inherent in F Ltd could have been reported too. This is easily determined even if the shares of

the companies combining are not actively traded. The combination gives the equity holders of E and F a 60% and 40% share of the future profits of the combined entity. It follows that the equity holders have agreed that they have contributed to the net assets of the combined entity in the ratio 60/40. F's goodwill can therefore be deemed to be fairly reported at \$20,000.

### Goodwill, undefined and poorly measured

Two "definitions" of goodwill were offered in the previous section that were established as no more than measures. Furthermore, they can be established as being poor measures! The capitalisation of future expected profits, as per Yang, may be a means of determining the valuation of a business entity, but such a valuation arrived at will depend on the behaviour of variables exogenous to a business, for example market conditions and the bargaining skills of the parties involved in buying and selling the business (Edey 1957). Greenwold's approach was demolished by Canning long before Greenwold had even propounded it. "Goodwill, when it appears in the balance sheet at all, is but a master valuation account – a catch all into which is thrown both an unenumerated series of items that have the economic properties of assets and an undistributed list of misvaluations of items identified as assets. It is a valuation account par excellence." (Canning 1929). This is Canning's way of saying that "the goodwill balance is a collection of mistakes in the valuation of assets!"

The lack of a satisfactory definition and the presence of patently inappropriate measurement, even without considering what it is that accountants are supposed to be measuring, led to a number of criticisms of the practice to capitalise the unexplained bit of the purchase consideration as "goodwill". These criticisms arose in the 1960s and 1970s as a result of the merger and acquisition boom in many developed economies over that period.

Subsequent to an acquisition being made it often become apparent that the vendor had succeeded in extracting a price from



the acquirer well in excess of the economic benefits the acquirer could hope to secure from the acquired business operation. There were a number of reasons for this. Would-be buyers made offers based on the target entity's financial statements, which in many cases suggested the business prospered far more than was the case in economic reality.<sup>2</sup> In contrast to the scenario where one group of entrepreneurs made a trade with another group, where there was an element of common membership in the groups, target entities typically found that they would receive offers from a number of would be purchasers, inflating the sum ultimately reported as goodwill. Competition among the buyers allowed the target entity to push the purchase price up. While the buyers could expect to inherit the intangible asset the sellers commanded, where the selling group and buying group had members in common, this could not be presumed when the two groups had no common membership. Furthermore, while professional firms could expect to enjoy a high degree of client loyalty, this would not be the case among entities producing goods, as opposed to services in an economy. The flow of economic benefits to the combined entity arising from goodwill reported in such circumstances is highly questionable. Under these circumstances certain academics (see for example Catlett and Olson 1968, Johnson and Petrone 1998, Miller 1973, Spacek 1964) argued that the premium payment made over the fair value of the net identifiable assets, in acquiring a going concern should be written off.

Advocates of an immediate write-off would make the additional points in support of their view. Firstly, as we are obliged to admit that we do not know what goodwill really is, a payment over and above that made for the net identifiable assets of an acquired entity could be either for an unidentified intangible asset or more simply an expense. As already noted, Canning (1929) pointed out that the goodwill account arising out of a business acquisition is an amalgam of mistakes made in allocating the acquisition cost to the identifiable assets and payments for any unidentified (but not necessarily unidentifiable) assets that may be derived by acquiring a group of net assets as a going concern. If Canning's master valuation account does really incorporate an element of goodwill, can its cost be separated out from all the mistakes? By definition an entity can never be certain that it owns an "unidentified intangible asset." Both "conservatism" and its contemporary equivalent, "prudence" would direct the accountant to expense the surplus payment rather than capitalise it.

Secondly, advocates of an immediate write off argue that capitalising the primary payment, even when an argument can be made that the asset goodwill exists, undermines comparability in financial reporting.

<sup>2</sup>This served to trigger a fundamental change in accounting practice. The profession became aware of the need to reflect economic reality as opposed to legal form in financial reports. As such it readily became apparent that direction through the standard setting process would need to become far more rigorous than had previously been the case. While these issues were taken on board by national standard setters in jurisdictions with a strong accounting profession, this also triggered the establishment of the international Accounting Standards Committee.



### Continue...

Consider two entities identical in every respect save that the first has been acquired by its current owners, who paid a premium price, and therefore reports an amount for goodwill in its statement of financial position. The second is under control of its original owners and therefore reports no goodwill. Identical entities should report identical financial positions. Where only purchased goodwill is capitalised they do not. There is, of course, a counter argument, namely, that the second entity has by way of its operation generated its own goodwill, which it would seek payment for in the event of being subject to takeover. It would be appropriate to recognise this internally generated goodwill as an asset.

At a conceptual level, the argument for capitalising internally generated goodwill to enable comparability between the two entities would seem to be as strong as that for expensing the premium payment where an acquisition has taken place. (Ma and Hopkins, 1988). It is consistent with the comprehensive approach to determining goodwill. However, as already noted, identifying operating costs that generate an undefined asset obviously poses insurmountable practical problems, which expensing a premium in the price paid for net identifiable assets does not.

Despite the cogency of these arguments, regulators who used to require the immediate write off of the unexplained balance, have been limited to countries such as Germany and Malaysia, which have conservative accounting traditions. In most jurisdictions immediate write-off would always have been seen as politically infeasible. Given the fact that the unexplained balance in some cases has been substantial, particularly in cases of competitive bidding by would be acquirers, retained earnings would be seriously depleted, or current earnings greatly reduced by an immediate write off. Reporting a substantial expense would suggest that the acquisition was an expensive mistake - something anybody would be reluctant to do, especially if it is true! Regulators in the pre IFRS era, however, took a different view as to how quickly the capitalised goodwill should be amortised. Japan specified five years, as did Fiji for a while. Australia specified



a maximum of twenty years, the number the IASB originally opted for in IAS 22. The United States decreed forty years. France did not stipulate an amortisation period and the United Kingdom said amortisation was unnecessary (Godfrey et al 2003).

Do reporting entities in Japan without exception, see goodwill expire over five years, whereas its Australian counterparts find that goodwill invariably lasts twenty years? If a Japanese firm were to relocate to the United States would it suddenly reap benefits from goodwill for over a further thirty five years!? Goodwill became amortised by dictat, perhaps determined by the rate at which regulators perceived combined business entities could tolerate a reduction in reported operating profit, save for France where the reporting entity could still select its own rate of write-off.

Amortisation was an act of expediency rather than a reflection of economic reality.

### Goodwill: definition with regulation

Considering the way in which the purchase price for a profitable going concern may be struck can serve to demonstrate that the argument for writing off the premium paid on an acquisition, over and above the net identifiable assets acquired is compelling, but not conclusive.

In making an acquisition, the maximum sum this buyer will be prepared to pay is the capital value of the enhanced stream of economic benefits that will be enjoyed after the acquisition. In contrast, the minimum sum the vendor will be prepared to accept is the capital value of the stream of economic benefits that will be surrendered as a result of the sale. The stream of benefits enjoyed by the acquirer could exceed that surrendered by the

vendor for a number of reasons. One entity may acquire a competitor and, as a result, enjoys monopoly profits. Perhaps the acquirer can operate the acquired entity more efficiently than the original owner.

The first edition of IFRS3 offers a definition of goodwill, "Future economic benefits arising from assets that are not capable of being individually identified and separately recognised." (IASB 2004a) Notwithstanding the fact that goodwill is defined as being unidentifiable and unrecognisable, IFRS3 (edition 1) states that synergistic benefits arise out of business combinations and that this serves to explain the presence of goodwill, at least in part. The actual purchase price determined will fall somewhere between the maximum payment the acquirer is prepared to make and the minimum payment the vendor is prepared to accept. It will depend on the negotiating environment and skills of the respective parties. The premium payment made over and above the sum to acquire the net identifiable assets of the acquired entity would therefore appear to be to compensate the original owners for a lost stream of future economic benefits and their negotiating skills, neither of which will be inherited by the acquirer. Of the other future benefits considered, the enhanced future benefits enjoyed by the acquirer could arise from the monopoly benefits that can accrue as a result of the acquisition and could be considered an asset at the time of the business combination. However greater efficiencies an acquirer may bring to the operation of the acquired entity occur after the acquisition takes place. There is no asset at the time of business combination.

Only if the enhanced stream of benefits enjoyed are derived from a monopoly position and / or synergistic benefits arising from the business combination can an argument be sustained that the acquirer has secured an intangible benefit from the entity acquired. Theoretically, the acquiring entity is justified in capitalising the fair value of this contribution. In reality, of course, it is impossible to identify the appropriate sum out of the otherwise unexplained portion of the purchase consideration to be capitalised and that is to be expensed.

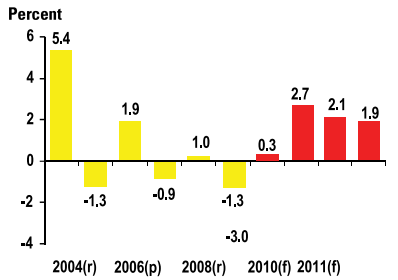
We must, therefore, conclude that the asset goodwill is typically over valued at the point of acquisition.



# Fiji: Economic Update

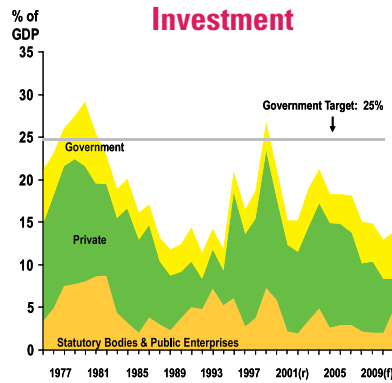
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## Economic Growth



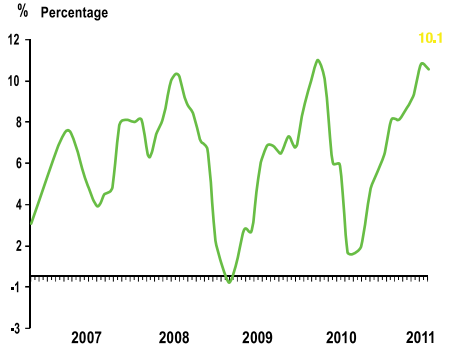
Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics & Macroeconomic Committee

## Investment



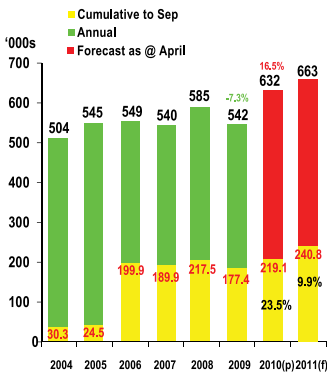
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## Inflation



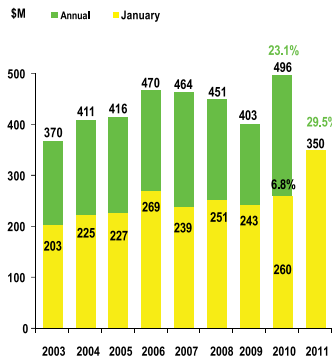
Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics

## Visitor Arrivals



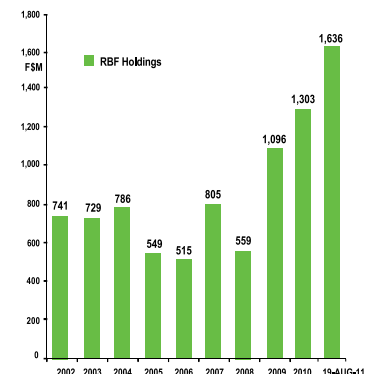
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## VAT Collection



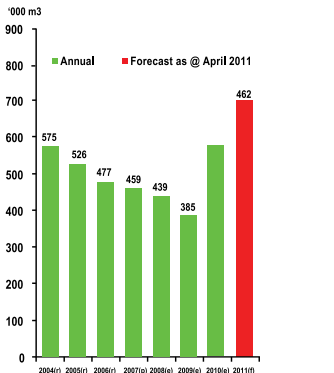
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## Foreign Exchange Reserves



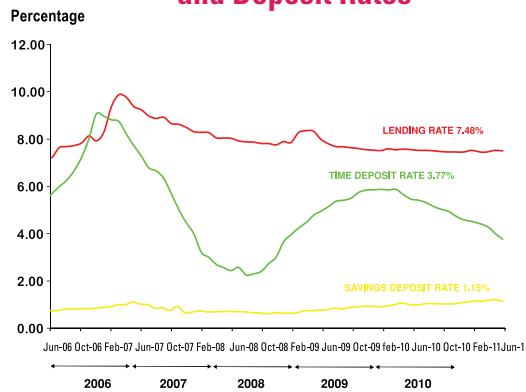
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## Forestry

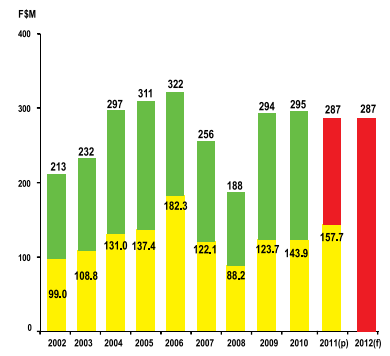


Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics & Macroeconomic Committee

## Outstanding Bank Lending and Deposit Rates

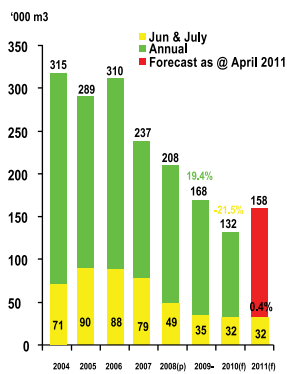


## Personal Remittances



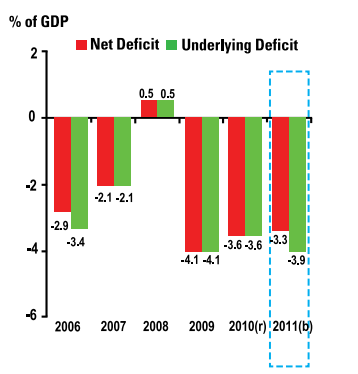
Reserve Bank of Fiji Source: FIBOS and Macroeconomic Committee

## Sugar Production



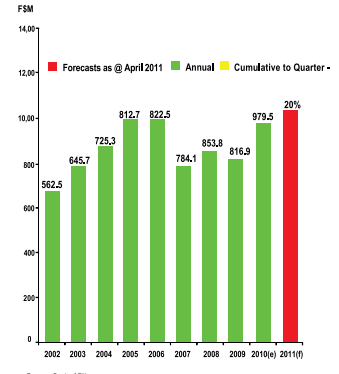
Reserve Bank of Fiji Source: FJ Sugar Corporation and Macroeconomic Committee

## Government Balance



Reserve Bank of Fiji Sources: Ministry of Finance & 2011 Budget Estimates

## Tourism Receipts



Reserve Bank of Fiji Sources: Fiji Islands Bureau of Statistics

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*Have you correctly account for goodwill?*

**Continue from page 22**

...We must also note that the purchase method of reporting a business combination poses two conceptual problems in the reporting of both synergistic and monopoly benefits as assets. By definition, both parties to a business combination contribute to such benefits arising from the combination. However, the purchase method of reporting the combination only permits the recognition of the goodwill contributed by the acquiree. Further, synergies and monopoly power are two separate sources of economic benefit, which exist independently of each other. They should, therefore, be reported separately from each other. Adopting the comprehensive approach to a business combination while not removing the practical problem, would resolve the first of these conceptual difficulties.

The FASB and IASB appear to reach much the same conclusion in the supporting documentation to the latest edition of IFRS3. In the Basis for Conclusions the following elements of the premium over the fair values of the net identifiable assets are identified:

- (1) The fair value of the going concern element of the acquiree's existing business. The going concern element represents the ability of the established business to earn a higher rate of return on an assembled collection of net assets than would be expected if those net assets had to be acquired separately. That value stems from the synergies of the net assets of

the business, as well as from other benefits (such as factors related to market imperfections, including the ability to earn monopoly profits and barriers to market entry – either legal or because of transaction costs – by potential competitors).

- (2) The fair value of the expected synergies and other benefits from combining the acquirer's and acquiree's net assets and businesses.
- (3) Overvaluation of the consideration paid by the acquirer stemming from errors in valuing the benefits in (1) and (2).
- (4) Overpayment arising out of the negotiating processes.
- (5) Mistakes made in determining the fair value of the identifiable assets.
- (6) Where an acquisition is paid for by the acquiring entity, issuing its securities any increase in the price of the acquisition arising out of an increase in the fair value of these securities in the time between the sale being negotiated and the transaction taking place (IASB:2009a)

Items 1 and 2 are deemed to be 'core goodwill'. In an ideal world it will be capitalised, with the remaining items expensed. While the FASB / IASB have succeeded in identifying that the unexplained balance arising on a purchase consideration of a going concern is an amalgam of both asset and expense, neither the conceptual nor the practical problems are effectively addressed.

The FASB and IASB acknowledge that items (3) – (6) should be expensed, but in view of the practical difficulties in disaggregating these components of the premium price paid, this cannot be undertaken. To compensate, regulation under IFRS3 requires goodwill to be subject to immediate and periodic impairment testing (IASB:2004b). Further, any impairment of a cash generating unit is charged to the goodwill associated with that cash generating unit in the first instance. Subsequent reversal is not allowed. This seems a weak mechanism to guard against over valuation compared with early practice, which could see an accelerated write off. How, in practice, can a meaningful impairment test be framed

for an unidentifiable intangible asset? How can the combined entity distinguish between the unidentifiable intangible asset it has purchased or generated in the acquirer's part of the operation at the date of acquisition, or generated in the combined operation subsequent to acquisition? Given that the importance of intangibles in entities' statements of financial positions is still growing, there is a possibility that goodwill will constitute a larger percentage of business assets than in the past. As long as an entity is able to report a surplus it can argue that goodwill is unimpaired. Thus, subsequent measurement, as well as immediate recognition of goodwill will almost inevitably ensure that overvaluation of goodwill, persists. This, again, can be interpreted as a triumph for the reporting entity, wishing to report a good story to the reader, who seeks a report reflecting economic reality.

**Goodwill: ongoing problems in regulation**

It would seem that the IASB is uncertain as to how to deal with the issue of reporting goodwill, even at the practical level, as it introduced two new changes to regulation pertaining to reporting goodwill in 2009 and in so doing created two new problems.

The first initiative is to require small and medium entities under the IFRS for SMEs to amortise goodwill (IASB2009b), on a straight line basis over ten years. Note that amortisation does not absolve the SMEs from undertaking impairment tests. The IASB cannot argue that the approach is justified by the need to simplify accounting practice. Is the re-establishment of goodwill amortisation simply a reflection of the fact that SMEs may be less successful in lobbying than large entities with regard to the regulatory processes? We have already seen that one rate of amortisation cannot reasonably apply to all entities in one jurisdiction with other uniformly applying to entities in another. How can one method of reporting goodwill be correct for all entities in one category and a different method apply for entities in another category?<sup>3</sup>

<sup>3</sup>The categorization of entities as 'large' or 'small and medium' is not actually based on size and can be considered arbitrary. The IFRS for SMEs also requires borrowing costs to be expensed under all circumstances, whereas IAS 23 requires borrowing costs to be capitalised when the borrowing relates to the acquisition or construction of an asset.



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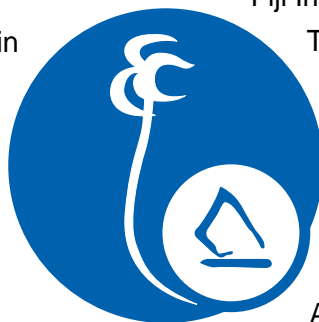
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**Continue from page 24...**

The second initiative involves refining the way in which goodwill is calculated. Paragraph 39 in the revised IFRS3 (IASB 2009c) now requires the following calculation to be made:

Fair value of consideration transferred	\$XXX
Plus Amount of non-controlling interest*	XXX
Plus Fair value of any equity already held in the acquiree	XXX
	XXX
Less Fair value off identifiable assets acquired less liabilities assumed	XXX
<b>GOODWILL ON ACQUISITION</b>	<b>XXX</b>

\* The amount of the non-controlling interest can be measured at the proportionate share of the acquiree's identifiable net assets, or at the fair value of the consideration retained line including the goodwill element.

The different outcomes in terms of the goodwill recognised can be demonstrated by considering the following:

**Illustrative example 3**

G acquires a 100% holding in the equity of H by issuing its own shares with a market value of \$100,000 the fair value of the net identifiable assets being \$80,000.

The calculation required becomes:

	\$
Fair value of consideration transferred	100,000
Plus amount of non controlling interest	nil
Plus Fair value of any equity already held in the acquire	nil
Less Fair value of identifiable assets acquired less liabilities assumed	(80,000)
<b>Goodwill on acquisition</b>	<b>20,000</b>

The outcome is the same under both methods of calculation, there being no non controlling interest.

Suppose, however, G acquired only a 70% holding in the equity of H, issuing its own shares to a market value of \$70,000 for it. As this is a controlling interest G will have absolute discretion as to the use of H's assets. Consolidation procedures require us to show all the assets of H in the consolidated statement of financial position.

Applying the calculation of goodwill, taking the non controlling interest to be the proportionate share of the acquiree's identifiable net assets yields the following:

	\$
Fair value of the consideration transferred	70,000
Plus: Amount of the non controlling interest (30% of \$80,000)	24,000
Plus: Fair value of any equity already held in the acquiree	nil
Less: Fair value of identifiable assets acquired less liabilities acquired	(80,000)
<b>Goodwill on acquisition</b>	<b>14,000</b>

This, too, is consistent with accounting practice as directed by the earlier edition of IFRS3. The alternative is set out below:

	\$
Fair value of the consideration transferred	70,000
Plus: Amount of the non controlling interest (30% of \$100,000, i.e. the identifiable assets and goodwill as determined if G had acquired 100% of H's equity)	30,000
Plus: Fair value of any equity already held in the acquire	nil
Less: Fair value of identifiable assets acquired less liabilities assumed	(80,000)
<b>Goodwill on acquisition</b>	<b>20,000</b>

The second approach would seem to be the conceptually correct one. The acquirer controls all the assets of the investee entity, including any goodwill contributed by the outside equity interest. The second approach also represents the non-controlling equity interest as 30% of the equity, whereas the first approach reports it as only 25.5%. Yet the IASB is unable to make up its mind on the issue, as reflected in the Basis for Conclusions to the revised IFRS, paragraphs 209 – 216. The reason for their indecision rests on the practical difficulty of measuring the fair value of the non-controlling interest. The illustrative example suggests that the fair value of the non-controlling interest is directly proportionate to that of the controlling interest (30% of the equity representing a total fair value of \$100,000). However, as the holders of the non controlling equity interest did not sell their equity at the price accepted by the other original equity holders, they must deem the fair value of their equity as something greater than the price of the shares set when the trade took place. Rather than report an approximation of the non-controlling interest's contribution to goodwill of the contained business entity, some members of the IASB are of the view it should not be recorded at all. Given the trend to adopt fair value accounting as a standard practice this seems odd. Fair value accounting requires incorporating information relating to hypothetical transactions into financial reports. The current draft IFRS on "Fair Value Measurement" indicates that the FASB / IASB expect reporting entities to go to almost any lengths to incorporate fair values, even where a market for the asset / liability in question does not exist. (FASB / IASB 2011)! At the point of business combination a very clear market price is available to the entity to use. Given that it is lower than holders in the non controlling interest in the acquire is prepared to accept simply makes it a prudent valuation.

While IFRS 3 does attempt to grapple with the nature of goodwill, it introduces a new problem into regulated accounting practice, namely the treatment of "negative goodwill". This is referred to in the Standards as the "Excess of the acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities

over cost.” Any “excess” arising out of a business combination is to be treated as an immediate income to the group. There is no consistency in treating positive goodwill as a capital item and negative goodwill as a revenue item. Standard practice is also clearly contrary to the prudence qualitative characteristic!

While the FASB and IASB may claim that through IFRS3 they have improved our understanding of goodwill, sadly they have provided us with more problems than they have resolved. We can, at least, be certain of one thing. The history of accounting for goodwill is not yet complete!

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- Facilitating collaboration and cooperation among its member bodies;
- Collaborating and cooperating with other international organizations; and
- Serving as the international spokesperson for the accountancy profession.

At the first meeting of the IFAC Assembly and Council in October 1977, a 12-point work program was developed to guide IFAC committees and staff through the first five years of activities. Many elements of this work program are still relevant today.

Beginning with 63 founding members from 51 countries in 1977, IFAC’s membership has grown to now include 164 members and associates in 125 countries and jurisdictions worldwide.

### IFAC Boards & Committees

IFAC has established a number of boards and committees to develop international standards and guidance and to focus on specific sectors of the profession:

Board/Committee	Date Established
International Auditing and Assurance Standards Board (formerly the International Auditing Practices Committee)	October 1977
International Accounting Education Standards Board (formerly the Education Committee)	October 1977
International Ethics Standards Board for Accountants (formerly the Ethics Committee)	October 1977
Professional Accountants in Business Committee (formerly the Financial and Management Accounting Committee and originally established as the Management Accounting Committee)	October 1977
International Public Sector Accounting Standards Board (formerly the Public Sector Committee)	May 1986
Transnational Auditors Committee	May 2000
Compliance Advisory Panel	November 2003
Professional Accountancy Organization Development Committee (formerly Developing Nations Committee)	November 2005
Small and Medium Practices Committee	November 2005



# CHALLENGES to Foreign Direct Investments

By: Glenis Yee, Associate - Munro Leys.

## Why attract FDI?

1. Foreign Direct Investment (FDI) is a key contributing factor to a nation's economic growth. FDI not only provides an inflow of foreign capital into a country. It also benefits its citizens through increased job opportunities as well as resulting skills and technology transfer.
2. The World Bank Ease of Doing Business 2011 assessment on Fiji saw Fiji's ranking fall to 62 (from 36 in 2008) behind our neighbours, Samoa (61) and Vanuatu (60). This yearly assessment is one indicator of Fiji's ability to attract FDI. It is based on a number of indicators such as the time it takes to start a business, register property, pay taxes, enforce contracts and close a business.

## Contributing factors

3. We can point to a number of historical and institutional reasons for Fiji's deteriorating rank. These include:

## Outdated legislation

- (a) In many instances, laws are outdated and have outlived their usefulness. For instance,

the Exchange Control Act (which is based on 1940s United Kingdom legislation) requires that the Minister of Finance (but delegated to the Reserve Bank of Fiji (RBF)) must approve even the issue of a single share in a Fiji company to a "non-resident".

- (b) In some cases, the antiquity of the legislation recalls a time of less economic activity and therefore less demand on resources. For example, some Immigration Act consents require the signature of the Minister of Immigration. Today the sheer volume of work undertaken by the Department of Immigration requires more efficient arrangements to be put in place since the Minister is not always readily available.

## Inconsistency

- (c) Inconsistent tests are applied in various laws. For instance, there are three different tests that can be applied to determine who is a "non-resident":

- by RBF (Exchange Control Act),
- by the Ministry of Lands (Land Sales Act) and



## What is FDI?

- by Fiji Revenue & Customs Authority (FRCA) (Income Tax Act).

This has led to situations where an individual or company can be a resident under one law but a non-resident under another.

- (d) Even contacting different people within the one organisation to ask for that organisation's requirements in respect of something can sometimes yield different answers to the same question!

## Legislation which serves a questionable public policy

- (e) Contrary to popular belief, a Foreign Investment Registration Certificate

(FIRC) from Investment Fiji does not automatically allow an investor to start a company in Fiji. It only allows the foreign investor to be authorised to carry on business in a "relevant activity" in Fiji. The foreign investor still has to (depending on its business):

- (i) incorporate the company through the Registrar of Companies (which he cannot do unless the company has a Tax Identification Number (TIN);
- (ii) issue and/or have shares in the company transferred to (and thus obtain RBF approval);
- (iii) obtain work permits for its non-Fiji citizen staff;



World Bank in Washington

- (iv) obtain a business licence from the local municipal council;
- (v) register itself as an employer with the Fiji National Provident Fund;
- (vi) register for tax with FRCA (see above), and;
- (vii) if buying or leasing land (not being native or what is now called i Taukei land) of more than one acre from a Fiji resident, obtain consent from the Minister of Lands among other approvals.

### Under-resourced regulators

(f) Arguably our most important registries, the offices of the Registrar of Titles and Companies are constrained by a lack of resources and lack of training for some personnel. For instance,

it sometimes takes the office of the Registrar of Titles up to (if not longer than) three months to register a land dealing. We sometimes find documents lodged for filing on the Register of Companies still not filed months after they were lodged.

### What could we do to improve FDI?

4. To address some of the issues raised above, we would recommend:
  - (a) a review of the various laws governing foreign investment to streamline the process for potential entrants and to ensure consistency of application for different laws;
  - (b) imposing timelines for decisions to be made by regulatory authorities, whether by law or public policy;

- (c) continuing to create, publish and update transparent policies and guidelines to clarify factors that will be taken into account in exercising statutory discretions or in interpreting laws;
- (d) creating an environment of accountability amongst regulatory authorities so that people tasked with dealing with investment-related applications keep investors up to date with the status of their applications by simply returning calls and replying to emails or letters;
- (e) a central database for agencies so that each can source information from each other instead of asking applicants to provide evidence of compliance (and thereby creating delays). For instance, almost

everything these days (including apparently Sky Pacific subscription!) requires a person to have a TIN. Some investors probably have to keep 10 or so certified copies of their TINs sitting in their office ready to be handed to the next regulator who asks for it;

(f) adequately resourcing our registries to ensure that they perform their functions more efficiently.

### Conclusion

5. We have highlighted factors which we think affect Fiji's ability to attract FDI. Working on these issues could assist in streamlining the process for investors and assist in attracting potential entrants.



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## FIJI INSTITUTE OF ACCOUNTANTS

# Executive Summary of Submission to the Ministry of Finance, National Planning and Sugar Industry for the 2012 National Budget

By: Business and Government Law Review Committee.

August 2011

### EXECUTIVE SUMMARY

Our submissions on the 2012 National Budget are provided in detail below. This executive summary concentrates on key areas, the most important of which, if properly addressed by Government, will result in positive changes and improved business environment and investor confidence leading to growth in investments and economic activities.

- The key to moving forward and achieving Government's objective of promoting investments and economic development lies with securing improved business environment and investor confidence, and thereby promoting further investments and economic activities. Investors have been experiencing many forms of bureaucracy and regulatory burdens in establishing businesses and doing business in Fiji. It comes in the form of compliance cost and regulatory burdens imposed by different institutions. Such an environment diverts limited resources from productive purpose to unproductive purpose. The key factor to achieving Government's objective and, as identified in our submissions, is to promote investments through ease of doing business.
- The common concern being raised by taxpayers and investors is the current revenue collection approach being undertaken by FRCA. FRCA should, without compromising its position, be working with taxpayers and investors,

and not against them, in collecting the proper amount of tax revenue. Tax laws are being applied inconsistently and policies, practices and interpretations are being changed ad hoc. This cannot but have a negative impact on the mindset of investors. Investors need clear policies, practices and interpretations to make informed decisions, which form the basis of their investments and long term planning.

- Incentives and support to targeted industries, which have the potential for creating further employment, exports and economic activities, together with meeting social obligations spread across the wider population.
- The development of micro and SME sector is critical for the economic development of the country, spread across remote and rural areas. This sector needs to be given due attention, nurturing and support.

### 1. PROMOTING INVESTMENT AND DOING BUSINESS IN FIJI

#### 1.1 Compliance Cost and Regulatory Burden

- Establish a task force to identify and remedy areas;
- To reduce red tape and regulatory burdens;
- To reduce compliance cost, and
- Improve ease of doing business.

#### 1.2 Commerce Commission

- The policy, practices and procedures within the Commerce Commission should be reviewed and improved with

the objective of reducing compliance cost.

- The functions and activities of the Commerce Commission should be aligned to Government policy of promoting investments and economic developments, and particularly for the development of micro enterprises and SMEs.

### 2. INTERNATIONALLY COMPETITIVE TAX REGIME AND FIJI REVENUE AND CUSTOMS AUTHORITY (FRCA)

#### 2.1 Consistency of Policy, Practices and Interpretation

- FRCA must apply its policies and interpretations consistently and transparently.
- Changes in interpretation, policies and practices by FRCA should not be introduced with backdated effect.
- FRCA should issue binding public and private rulings to ensure consistency in FRCA practices and certainty for taxpayers and investors.

#### 2.2 Role of FRCA in Promoting Investments and Economic Activities

- Implement specific measures to improve dialogue and understanding between business community / investors and FRCA. Establish forum to consult business community / investments.
- FRCA to implement specific measures aimed at providing necessary support

to promote investments, promote economic activities, and for economic recovery and development.

- Undertake an independent review of the tax administrative policies, procedures and activities to assess its impact on business activities and economic activities, and its impact on the economic development of the country. Such reviews are carried out regularly in a number of countries, with the objective of identifying difficulties and problems faced by businesses and taxpayers, with suggestions for improvements, and systems and processes aimed at promoting business activities and economic growth.

### **2.3 FRCA – As Business and Commercial Enterprise**

- Operate FRCA as a business and a commercial enterprise.
- Introduce profiling of tax payers, with the objective of providing greater flexibility to taxpayers maintaining high standard of compliance.

### **2.4 VAT and Income Tax Refunds and Interest on Delay in Refunds**

- Refunds owing to taxpayers are monies held in trust for taxpayers must be processed automatically as soon as these become due.
- Interest should be paid for delay in issue of refunds as allowed under the respective legislation.

### **2.5 Tax Agents Portal**

- Tax Agents Portal project has not been successful. The project needs to be enhanced and revitalised.

### **2.6 Taxpayers' Charter and Tax Dispute Resolution Service**

- Establish the Taxpayers' Charter and the Associated Tax Dispute Resolution Service.

## **3. TAX LAWS AND ADMINISTRATION**

### **3.1 Section 11(a) Income Tax Act**

- Review and clarify the application of

section 11(a) of the ITA, particularly in view of the Capital Gains Tax Decree and as it relates to profits from the sale of assets held as investments.

### **3.2 Head Office Expenses – Limit of 3% on Turnover**

- Remove 3% limit.
- Introduce specific transfer pricing rules in respect to head office management fees and head office expenses. This is to ensure the 3% limit is not misused, and at the same time to allow development of the service sector where 3% limit is considered to be extremely low.

### **3.3 Withholding Tax**

- The withholding tax rules should be changed to be consistent with the overall provisions of the Fiji Income Tax Act.
- Clear rules to be put in place on applicability of withholding tax on pure cost allocations.
- Withholding tax provisions in relation to tax treaty countries should be applied consistently and in the spirit of the relevant double tax agreement.

### **3.4 Dividend Regulations and Tax on Dividends**

- Clarify the position with respect to the calculation of qualifying dividends in respect to pre-2001 tax payments.

### **3.5 Simplified Tax System for Micro Enterprises and SMEs**

- Introduce Simplified Tax System for all micro enterprises and SMEs as a matter of priority.
- Undertake a review of Income Tax Act, VAT Decree and other legislation to identify areas and ways to reduce compliance costs, to reduce tax administration costs and make taxation simple.

### **3.6 Income Tax Rates**

- The maximum rate for individuals should be reduced from 31% to 28% to be in line with the corporate rate.

## **4. REVENUE GENERATING INITIATIVES**

### **4.1 Transfer Pricing Rules**

- Introduce formal transfer pricing rules for goods and services in line with internationally accepted practices.

### **4.2 Tax Evasion and the Hidden Economy**

- Review and implement initiatives taken by other countries for reducing the level of tax evasion and the hidden economy.

### **4.3 Contractors Provisional Tax**

- Consideration should be given to repeal the current provisions relating to Contractors Provisional Tax and replace the same with a simple but effective and workable system.
- The new system should be based on "tax invoice" criteria. Under this system, 15% provisional tax should be deducted in the event the supplier of goods or services do not provide a "tax invoice".

## **5. TARGETED INDUSTRIES AND TAX INCENTIVES AND OTHER SUPPORT**

### **5.1 Exports– Tax Incentives**

- Export income deduction available under section 21B of the ITA should be maintained at least at 50%. The proposed reduction in export income deduction rates should be deferred indefinitely for time being.
- Export incentives should be available to all exporters of goods and services to the maximum extent. FIA believe this will assist in promoting further investments, create jobs, business activities and economic activities.
- Define "re-exports" for the purpose of export income deduction as "re-exports" from bonded warehouse or direct exports.

## 5.2 Agriculture Sector – Tax Incentives and Other Support

- Introduce bold and effective incentive package for agriculture sector.
- Grant total exemption to income from agriculture.
- Alternatively, current provisions should be amended to allow for tax incentives on a pro-rata basis where turnover exceeds \$300,000, and should be available to all kinds of agricultural activities. Currently, tax incentives for SME's are available only if total turnover is less than \$300,000 per annum and is available for selected prescribed activities in agriculture, fisheries and tourism sectors only.
- Establish processing ventures to support the rural community and farmers, and creating opportunities through diversifying agriculture, fisheries and forestry ventures.

## 5.3 Hotel Industry – Tax Incentives under the 11th Schedule of the Income Tax Act

- Developer profits exemption, which was repealed in 2007, should be restored in the 11th Schedule of the Income Tax Act.

## 5.4 Fishing

- Implement measures to encourage processing and value added activities within Fiji.
- Establish rules to preserve depleting natural resource of seafood.
- Explore opportunities for fish and prawn farming, which for a start, can provide a consistent supply to the tourism industry and can later be exported.

## 5.5 Garment Industry

- Identify and implement effective measures to support and achieve further growth in the garment industry.



Picture courtesy of FVB.

Tourism...key sector in Fiji's Economy.

## 6. STRUCTURAL REFORMS

### 6.1 Public Sector Reform

- Continue to implement public sector reform measures to deliver efficient and effective services.
- Enforce accountability in public service.
- Review disciplinary procedures for civil servants to expedite the process.

### 6.2 Government Services

- Accelerate E-Governance initiatives.
- Overhaul as a matter of priority:
  - i Registrar of Companies
  - ii Titles Office
  - iii Department of Town and Country Planning
  - iv Laws of Fiji - update all legislation with all amendments to-date. Public should have easy access through internet to all laws of Fiji with historical updates and amendments.

## 7. FISCAL POLICY

### 7.1 Government Debt and Expenditure Policy

- Fiscal discipline should be maintained, including restricting Government debt

and the budget deficit to sustainable levels.

- Government should reduce overall expenditure and debt while increasing the allocation for capital projects and reducing amounts for operating expenditure.

### 7.2 Health Care and Education

- Improve facilities and service delivery at hospitals and health centers.
- Increase capital expenditure allocation for education, and to improve facilities at schools.
- Introduce strategies and measures to develop a pool of qualified, skilled and competent teachers.

### 7.3 Judiciary

- Judiciary system should be further enhanced with additional resources to make it more efficient and effective, and thereby increase the level of investor's confidence and encourage investments.





# FIJI INSTITUTE OF ACCOUNTANTS

## Executive Summary of Submission to the Fiji Revenue & Customs Authority - Proposed Draft Income Tax Decree

By: Business & Government Law Review Committee.

### 1. EXECUTIVE SUMMARY

Our comments on the proposed draft Income Tax Decree (ITD) are provided in detail below.

This executive summary concentrates on some of the key areas. We expect that if these issues are properly addressed, it will assist in building investor confidence, growth in investments and economic activities.

#### 1.1 Commencement date

The FRCA and taxpayers should be given ample time from the promulgation of the law to familiarise themselves on the proper implementation and application of the law. It may be more practically viable and appropriate for the Decree to come into force from 1 January 2013. It has many useful modernising provisions but the best value can be gained by ensuring that the law is properly compiled and that all stakeholders are familiar with the law.

#### 1.2 Substantive provisions being covered by Regulations

We note that a number of substantive provisions are proposed to be covered by Regulations to be subsequently issued by the relevant authority. We would respectfully suggest that the draft ITD include all substantive provisions while the Regulations cover the necessary operational and practical issues. This would ensure that the draft ITD contains all substantive provisions which would be properly approved by

Government. We would be glad to assist in the review of the draft Regulations.

#### 1.3 Compliance cost

We understand that it is the Government's intention to encourage voluntary compliance and that the taxation system should be service oriented. In such case, compliance cost would need to be reduced or, at least, remain the same and the taxpayers should not be further burdened by additional compliance requirements.

#### 1.4 Structure of the draft ITD

The draft ITD should also be structured with a view providing the necessary support to promote investments; economic activities; and for economic recovery and development, together with achieving simplification and ease of compliance.

##### 1.4.1 Introduction of new taxes

We understand that one of the objectives of the draft ITD is simply to consolidate the existing legislation. Hence, new taxes (e.g. surcharge; presumptive income tax; fringe benefit tax; non-resident taxes; etc) should not be introduced under the draft ITD.

##### 1.4.2 Maintenance of current tax incentives

All the tax incentives in the current legislation should continue. Furthermore, consultation with the

various industry groups such as tourism, mining, insurance and the like, is extremely important. This is particularly so where fundamental changes are being proposed in the way that the industry is taxed or impacted by the proposed changes in the tax laws. Consequently, we are encouraged that the FRCA has published the draft ITD inviting comments from the public at large.

#### 1.4.3 Tax rates

The proposed maximum tax rate for resident individuals is higher than the maximum tax rate for non-resident individuals. Hence, the resident individuals are effectively disadvantaged. The maximum tax rate for resident individual should be reduced to at least 31 percent or ideally to 28 percent in line with the corporate tax rate.

#### 1.5 Non-resident taxes

The removal of withholding taxes and the introduction of non-resident tax goes directly against the agreements made by Fiji with other countries in negotiating the various double tax agreements. The replacement of withholding taxes with a non-resident tax on non-resident payments may result in tax credits not being available to foreign suppliers in their home country. Ultimately, the burden of any additional tax will be borne by domestic consumers, on a gross up basis, as foreign suppliers

quote and insist on being paid on a gross rather than net basis. This additional tax will have a significant impact on the cost of doing business in Fiji, further impacting our competitiveness as an investment destination. It may also have an inflationary impact.

#### 1.6 Fringe benefit tax

The change in the fringe benefits tax regime will greatly impact business and the cost of doing business in Fiji. As an example, the provision of benefits, are necessitated by location and business structure. Under the proposed changes, the imposition of a tax on gross up basis, at the top marginal rate of tax will be inequitable and disproportionate to the value of the benefit being afforded to the employee. Industry views are imperative in this area.

#### 1.7 Capital gains tax (CGT)

In determining capital gains for CGT purposes, the calculation of the cost should allow cost adjustment at fair value as at May 2011 and introduce 'indexation' adjustment to ensure that capital gains tax is imposed only on capital gains since the CGT was introduced and not historical and 'inflation' gains.

#### 1.8 Qualifying dividends and other Regulations

The Regulations for calculating dividends subject to tax (and all other Regulations) should be finalised prior to the commencement date of the draft ITD.

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We would be glad to assist in the review of the draft Regulations.

### 1.9 Natural Resources

We respectfully request that the Natural Resources provisions be reviewed. The different industries that explore and / or utilise the various natural resources have different characteristics and these need to be considered in the provisions. Furthermore, the provisions as it stands must include an indefinite carry forward of losses.

### 1.10 Provisions under Part II, Division X (International)

We respectfully suggest that the impact of these provisions be assessed for their impact on foreign investors and suppliers of services from offshore. The two year limitation for claiming foreign tax credits is unreasonable and should be reviewed.

#### 1.10.1 Thin capitalization

The provisions on 'thin capitalisation' should be removed on the basis that this matter is already regulated by the Reserve Bank of Fiji under the Exchange Control Act.

### 1.11 Consistency of policy, practices and interpretation

We have noted that Fiji Revenue and Customs Authority (FRCA) is changing its policies, practices and interpretation without valid or reasonable reasons, which is beyond the six year limit provided under the Tax Administration Decree (TAD).

Such practices only give signals of uncertainty to businesses and discourage further investment.

Under TAD, FRCA has the avenue to make public



or private rulings. Such ruling will give taxpayers a definitive stance taken by FRCA and eliminate room for any doubt and uncertainties in the application of tax law at a later date.

FRCA should be working within the ambit of the legislation and should be seen to be fair in its application of policies, practices and interpretations.

Economies, where their revenue offices have shown a more customer orientated approach, have not only gained investor confidence, but have also shown increased compliance on the part of the taxpayers.

### 1.12 Role of FRCA in promoting investments and economic activities

FRCA has a critical role to play, and without compromising its position, FRCA must provide necessary support to promote investment, promote economic activities, and for economic recovery and development.

It should be noted that the increased compliance cost and inefficient services erode the advantages of lower tax. When investors are faced with red tape and inefficient services, it results in increased compliance costs. At the macro level, the impact of such waste of time and resources amounts to a significant sum with

direct impact on investment, economic activities and loss of revenue to Government.

Equally, if compliance costs increase disproportionately for small businesses, this becomes a matter of significant concern in the Fiji economy where a vast majority of businesses are small businesses.

Our recommendations will directly or indirectly encourage the process of voluntary compliance and improve customer (taxpayers) relationship by driving the changes that will bring about simplicity, improved efficiency and improved customer (taxpayer) services.

### 1.13 FRCA as a business and commercial enterprise

The emerging trend is to manage and operate Government revenue offices as a business and as a commercial enterprise.

Undertake specific review of policies, systems and processes of FRCA with the objective of reducing compliance cost and administrative cost, and making tax compliance simple and easy. This review process will achieve multiple objectives, including:

- Reduced administrative cost to FRCA;
- Reduced compliance cost

to tax payers;

- Improving efficiency of services;
- Assistance to small businesses and small tax payers.

### 1.14 Simplified Tax System for Micro Enterprises and SMEs

The current tax system is considered to be complex and costly for micro enterprises and SMEs. Government has recognised that micro enterprises and SMEs are fundamental to Fiji's economy and thus must be nourished and supported.

Even developed countries like Australia have simplified tax systems (STS) for SMEs. STS is a package of measures aimed at reducing the compliance costs faced by eligible small businesses. It provides an alternative method of determining taxable income with no significant impact on the collection of tax revenue.

FIA has identified a number of areas for simplification of tax administration and tax compliance, which include:

- Increase in Provisional Tax Payment threshold for individual taxpayers;
- Extended filing date for filing of tax return (instead of 3 months);
- Simplification of 15% Contractors Provisional Tax Payments;
- Increase threshold for write-off of Capital Nature Expenses;
- Information required with tax returns;
- Issue clear policy statements;
- Introduce profiling of taxpayers; and
- Issue Blanket Tax Clearances for major projects and repetitive payments where the FRCA does not see any threats to revenue collection.



# Education, Membership & Admission Committee



**By: Murray Mackenzie,  
Executive Director**

**A**T the end of 2010, there were 697 registered members of the Institute as well as 22 students. To the end of August 2011, an additional 112 members have been admitted, which should have resulted in an increase in overall membership. But – regrettably – we have lost no less than 155 members and 13 students who had failed to pay their annual subscriptions by the end of June. Some of these have since rejoined after they paid their subscriptions and hopefully more will follow their example.

In an effort to counteract this phenomenon, the Institute has taken part in a number of outreach activities in the past two months. With the valued assistance of a number of volunteers, Hannah Smith from KPMG, Swastika Lal from Ernst & Young, Rakesh Gupta from PricewaterhouseCoopers, Ronesh Dayal and Leonard Chan from Bank South Pacific and Divik Deo from Vodafone, the Institute took part in a Careers Expo for four schools at the Latter Day Saints College in Tamavua on 29th June, and several of the same volunteers joined the Secretariat team

at the St Joseph's Secondary School on 28th July for a similar Careers Expo for that school. The Secretariat, with Leonard Chan, also manned a booth at the USP's Open Day on 5th August. We are most grateful to these willing volunteers, who could explain to would-be accountants the details of the day-to-day life of an accountant in the real world. A half-day Workshop was also run by the Marketing and Promotion Committee at the USP on 13th August for

some 180 USP students.

Professor Keith Houghton from the Australian National University, who has been the Accreditor engaged by the Institute to review the courses, facilities and staffing at the three Fiji universities, had conducted an initial review of the Fiji National University in early February this year and produced a series of suggested changes that could be made at the university. He, and the Institute, has been most

impressed with the positive response received from the FNU, which has accepted and adopted virtually all of these proposed changes, and the Institute has agreed to accredit the BCom and BAcc degrees offered by the FNU. The Council has also agreed to accredit the revised and expanded ordinary Diploma in Accounting offered by the FNU in place of the previous Advanced Diploma in Accounting as a qualification for admission to membership as an Affiliate Accountant.

Professor Houghton returned for a second visit to Fiji in late July this year to conduct a similar review of the University of the South Pacific and the University of Fiji. We are awaiting his report on these two other universities.



*source:www.google.com*

## 1. Meeting with Permanent Secretary of Finance

In June 2011 the Committee met at the FIA Conference room with Filimone Waqabaca- Permanent Secretary of Finance and David Kolutagane –Deputy Permanent Secretary of Finance. We were thankful that they were able to find time to come and meet us at the FIA office. The Committee enlightened them on the role and function of the Business and Government Committee and the need of working together with Government in moving the country forward. The Committee also raised with the Government representatives difficulties faced by investors. We were also pleased to note from the Permanent Secretary that he is going to follow up on the Institute's submission on proposed amendments to the Acts and Rules.

## 2. The 2012 National Budget

The Committee also discussed during the month of July our draft submission for the 2012 National Budget. On 4 August 2011 our submission was lodged with the Ministry of Finance. There were four main issues which we think, if properly addressed by Government, will result in positive changes and improved business environment and investor confidence leading to growth in investments and economic activities. The four issues are as follows:

- i) Investors have been experiencing many forms of bureaucracy and regulatory burdens in estab-

lishing businesses and doing business in Fiji. They come in the form of compliance costs and regulatory burdens imposed by different institutions. Such an environment diverts limited resources from productive purpose to unproductive purpose. The key factor to achieving governments objective, and as identified in our submissions, is to promote investments through ease of doing business.

- ii) The common concern being raised by taxpayers and investors is the current revenue collection approach being undertaken by FRCA. FRCA should, without compromising its position, be working with taxpayers and investors, and not against them, in collecting the proper amount of tax revenue. Tax laws are being applied inconsistently and policies, practices and interpretations are being changed ad hoc. This cannot but have a negative impact on the mindset of investors. Investors need clear policies, practices and interpretations to make informed decisions which form the basis of their investments and long term planning.
- iii) Incentives and support to targeted industries which have potential for creating further employment, exports, economic activities together with meeting social obligations spread across wider population.

- iv) The development of the micro and SME sector is critical for the economic development of the country, and spread across remote and rural areas. This sector needs to be given due attention, nurturing and support.

## 3. The Draft Income Tax Decree.

In August 2011, the Committee was invited by FIRCA to comment on third draft of the proposed Income Tax Decree. We were advised that this was a tax rewrite, simplification and consolidation of existing legislation. On 16 August 2011, the Committee wrote to FIRCA to inform them of some of the few points that are of serious concern, arising from our initial overview. Those points include the following:

- The draft income tax decree is far more than a rewrite. It includes new areas of policy, changes in taxing provisions and introduction of new taxes.
- The removal of withholding taxes and the introduction of non-resident tax on non-resident payments goes directly against current double taxation agreements Fiji has with certain overseas countries.
- The introduction of the fringe benefits tax regime is another area which will greatly impact business and the cost of doing business in Fiji.
- There is a need for more consultation with the wider business community such as tourism, mining and insurance industries.

After our initial letter, the committee met for a couple more

times and had various email discussion on the Institute's full submissions. The final submission was delivered to Government on 2 September 2011. On 5 September 2011, the Committee had a phone-hook up discussions with Professor Lee Burns from University of Sydney on our final submission. Some of the important issues noted in our covering letter accompanying our submission are:

- We have not had the opportunity to peruse the policy framework used to prepare the draft Income Tax Decree. Our comments have been prepared based purely on our review of the draft ITD.
- The draft ITD was often difficult to understand because there were no accompanying explanatory notes.
- We propose that the Commencement date of the ITD be 1 January 2013.
- We propose that the draft ITD include all substantive provisions while the regulations cover the necessary operational and practical issues.
- The taxpayers should not be further burdened by additional compliance requirements if the Government's intention is to encourage voluntary compliance.
- The draft ITD should be structured with a view to providing necessary support to promote investments, economic activities and for economic recovery and development. (e.g - no new taxes, preserve current tax incentives etc )

# MEMBERSHIP OF COMMITTEES

(2011/2012)

## INVESTIGATION

Cama Raimuria (Chair)  
Stella Simpson  
Atunaisa Nadakuitavuki  
Fay Yee  
Caroline Pickering

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Nitin Gandhi  
Iowane Naiveli  
Ravendran Achari  
Trevor Nainoca

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Finau Nagera  
Regina Mar  
Ravendran Achari  
Vimal Chand  
Savinesh Kumar

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Beverly Seeto  
Suiva Peckham  
Eliki Boletawa

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Cama Raimuria  
Lisa Apted  
Pradeep Patel  
Jerome Kado  
Deepa Kapadia

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Lorraine Seeto  
Kavin Rathod  
Renu Chand  
Ronesh Dayal  
Kalpana Lal  
Neil Underhill  
Daphne Fong

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Zarin Khan  
Kathleen Hope  
Nouzab Fareed

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Iowane Naiveli  
Prof. Michael White  
Tevita Bolanavanua  
Inia Naiyaga

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Prof. Arvind Patel  
Leonard Chan  
Sailesh Kumar  
Deven Sharma

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Atunaisa Nadakuitavuki  
Pradeep Fonseka  
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Myrtle Smith  
Saimoni Veramu  
Reshma Ram

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Stella Simpson (Chair)  
Glen Finau  
Niraj Bhartu  
Nirenjeev Kumar

## STAFF & ADMINISTRATION

Divik Deo (Chair)  
Sikeli Tuinamuana

## TREASURER

Sikeli Tuinamuana

## Western Division

Robert Cohen (Chair)  
Ben Coutman  
Shaneel Nandan  
Rajesh Sangekar  
Deepti Lal  
Sanjini Nair  
Denise Charan

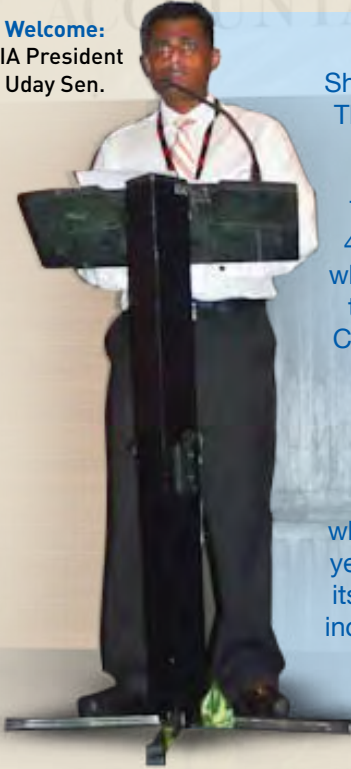


# FIJI INSTITUTE OF ACCOUNTANTS

## THIRTY – NINTH ANNUAL CONGRESS PROGRAMME

DAY 1: FRIDAY 10TH JUNE 2011

**Welcome:**  
FIA President  
Uday Sen.

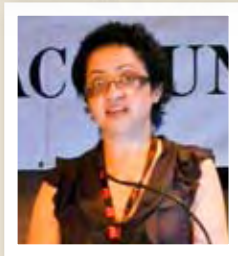


The 2011 FIA Congress was held at the Shangri-La Fijian Resort from 10 to 12 June 2011. The theme for the 2011 Congress was “Partners for Investment and Growth”.

The Congress was well attended. There were 429 delegates, their partners, and 118 children who attended the Congress. We were again able to attract a large number of delegates and the Congress continues to be Fiji’s premier business conference.

We again had excellent support from our sponsors. The major sponsor for the 2011 congress was Westpac Banking Corporation, who was a major sponsor for the 8th consecutive year. The Council thanks Westpac for continuing its support of the FIA Congress. Other sponsors include Vodafone Fiji, Fiji Sun, Credit Corporation, VT Solutions, Merchant Finance and FINTEL. Thanks to you all.

**Opening Address:**  
Prime Minister  
Voreqe Bainimarama.



**First Panel Discussion:**  
Session Chair:  
Lisa Apted.



**First Session:**  
“Opportunities and Challenges in the Asian Region”  
Ms Tracey Lee  
Investment Analyst-IFC [Keynote Speaker].



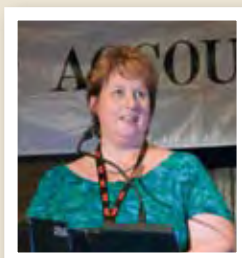
**Second Session:**  
Future Investment & Growth in Fiji “  
Mr. Barry Whiteside  
Governor-Reserve Bank of Fiji.



**Panelists:**  
Jitoko Tikolevu (*CEO-FRCA*),  
Filimone Waqabaca (*Permanent Secretary-Finance*),  
Jason Stephens (*General Manager-Westpac*),  
Barry Whiteside (*Governor-Reserve Bank of Fiji*).



**Second Panel Discussion**  
Session Chair:  
Cama Raimuria.



**Third Session:**  
“Fiji’s Future Economic Potential”  
Ms Emma Veve  
Senior Country Specialist,  
ADB.



**Fourth Session:**  
“The Namosi Copper Mining Project”  
Mr. Ron Douglas,  
Executive General Manager Projects,  
Newcrest.

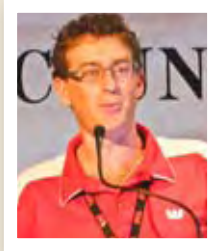


**Panelists:**  
David Aidney (*Chairman-Williams & Gosling*),  
Wylie Clark (*Managing Partner-Howards Lawyers*),  
Ikbal Jannif (*Chairman-Fiji National University*),  
Ron Douglas (*Executive General Manager Projects-Newcrest*)  
Emma Veve (*Senior Country Specialist-ADB*).

# FIJI INSTITUTE OF ACCOUNTANTS

## THIRTY – NINTH ANNUAL CONGRESS PROGRAMME

### DAY 2: SATURDAY 11TH JUNE 2011



**Third Panel Discussion:**  
Session Chair:  
Jason Stephens.



**Fifth Session:**  
“Governance and  
Corruption”  
Ms. Suliana Siwatibau,  
Director Transparency,  
International.



**Sixth Session:**  
“Teak Forests: a New  
Experience for Fiji”  
Mr Roderic Evers,  
Managing Director,  
Future Forests Fiji.



**Seventh Session:**  
“Fiji and the World of ICT”  
Mr Zain Khan  
Manager & Consultant  
Alliance Consulting Group.



**Panelists:**

Roderic Evers (*Managing Director-Future Forests Fiji*),  
Rohan Mail (*CEO-Telecom Fiji Limited*),  
Suliana Siwatibau (*Director-Transparency International*),  
Zain Khan (*Manager & Consultant - Alliance Consulting Group*).



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**2011  
CONGRESS  
GALA DINNER**







## Profile – Akashni Singh

**A**kashni Singh was admitted as Chartered Accountant member of the Fiji Institute of Accountants in January

2011. Akashni graduated from the University of the South Pacific in 2007 (funded by PSC scholarship) with a BA in Accounting & Financial Management and Economics. She completed her primary school studies at IGM and MGM Primary School, before moving on to MGM High School to complete her secondary education. She was awarded the J P Bailey Trust Prize for

attaining the highest English mark (95) in FSLC in 2003. In early 2008, Akashni joined the Audit Team at G H Whiteside & Co. She remains there to date, having progressed within the organisation. After becoming an Affiliate Member (ASA) of CPA, Akashni is currently pursuing her CPA studies to get full accreditation to CPA status. Her future plans include undertaking

Management Accounting studies from CMA Australia. In her leisure time, she enjoys spending quality time with her family, travelling, reading and cooking. She dedicates her accomplishments to her parents and brothers. She strongly believes that to achieve success one must always listen to the advice given by ones parents.



## Profile Avinesh Ram

**A**vinesh Ram was admitted as Chartered Accountant of the Fiji Institute of Accountants in January, 2011, under the revised requirements for admission to FIA membership. He is currently working towards full CPA accreditation and Masters in Commerce through The University of the

South Pacific. After completing his primary school education at Solove Primary School in Seaqaqa, Labasa, Avinesh studied at Seaqaqa Central College up till form four then completed his secondary level education at Labasa College. He graduated with a Bachelor of Arts Degree from the University of the South Pacific in 2004, majoring in Accounting & Financial Management and Information System. Avinesh is currently working at Fiji Public Service Association as Manager Finance and Administration. Apart from the above role, he is also an Office Manager, responsible for the overall operations and

financial aspects of Service Worker Credit Union, the sister company of Fiji Public Service Association. After graduating from The University of South Pacific in 2004, he started his career in December 2004, with Quest Limited, a subsidiary company of ANZ Bank, with the role of Financial Reporting Officer. He moved on from Quest Limited to the Fiji Public Service Association in November 2005 as Accountant, and then to his current role in August, 2006. While employed at Quest Limited and Fiji Public Service Association, he was a Part Time Tutor and Marker for Accounting & Financial Management units (AF100, AF101, AF102-

Management Accounting, AF201 - Management Accounting, AF203-Financial Reporting, AF210-Company Accounting, and AF301-Accounting Theory) at The University of The South Pacific from Semester one, 2005 until last year. Avinesh takes a keen interest in sports & old cars. His other hobbies include driving, travelling and playing soccer. His education and practical experience have provided him with the ability to understand both financial and computerised systems and administration, which work hand in hand for the success of any organisation.



## Profile - Anjay Kamal Sharma

**A**njay Kamal Sharma completed his Bachelor of Arts Degree majoring in Accounting & Information System from University of the South Pacific on 23rd April, 2004. He was a former

student of D.A.V College, BA. He joined Fiji Sugar Corporation Ltd in the year 2006 as Graduate Trainee – Finance at Head Office in Lautoka. Later, he was promoted to Senior Accounts Officer at Supply Chain – Lautoka in 2007. In the

year 2009 he was promoted to Accountant at Penang Mill where he is currently based. He is also an associate member of CPA Australia and has completed three core units, pursuing towards CPA status.

# new membership

## New Members Welcomed

The Institute is pleased to welcome the following persons, who have been admitted to membership, in various different categories in the months of June, July, August and September 2011.

### Chartered Accountant

Alistair Michael Brown	Curtin University
Asuramana Pedige Sisila Jayasiri	Sun (Fiji) News Ltd
Parnil Rakesh Lal	Coca - Cola Amatil (Fiji) Ltd
Rohitesh Chand	Reserve Bank of Fiji
Vikash Pranil Chand	Office of the Auditor General

### Provisional Members

Alvin Maharaj	Telecom Fiji Ltd
Aman Rishikesh Chand	Punja & Sons Ltd
Ashneel Achari	Ernst & Young
Chirag Jitendra Parmar	Pricewaterhouse- Coopers
Kiran Jagdish Khatri	Pricewaterhouse- Coopers
Nainasa Nalewagone Whippy	Self Employed
Navin Krishna Reddy	TOTAL (Fiji) Ltd
Nitesh Ram	Ministry of Education
Pratin Lal	G.Lal & Co
Rohini Ranjini Singh	International Union for Conservation of Nature
Samuel Edwin Brown	Telecom Fiji Ltd
Sanket Kumar Bhavsar	Pricewaterhouse- Coopers
Selvin Kishore	Reserve Bank of Fiji
Shyman Reddy	Fiji Ports Corporation Ltd
Simon EdwinKumar	Pricewaterhouse- Coopers
Tealofi Enosa	Tuvalu Communications Corporation
Vishika Arun Gohil	Ernst & Young

### Affiliate Members

Atish Alvin Prakash	Ernst & Young
Avinash Singh	The Fiji Times Ltd
Nilofar Bibi	Tappoo Ltd
Ropate Sigadua	The Fiji Times Ltd

**Note: the following members were admitted in April & May 2011.**

Raveena Devi Kumar	Office of the Auditor General
Ronald Kumar	Asco Motors
Sabreen Nisha	Aflail Trading Co Ltd
Satish Kumar	C.J.Patel & Co
Shamsher Ali	GMR Muhammed & Sons Ltd

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We are a local business that understands the environment in which you operate and the particular risks you face. Because of our long commitment to Fiji we have a wealth of local knowledge and expertise. In addition, we have the support of a Pacific regional network and access to the capabilities of the QBE group. We are strengthened by QBE's consistently successful track record over the last 125 years.

We work autonomously and make underwriting and claims decisions locally. This is why our skills can help you or your business with your insurance needs. For customised insurance solutions contact your insurance adviser or visit our website at [www.qbepacific.com](http://www.qbepacific.com)

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