

THE REPORT OF THE AUDITOR GENERAL



ON THE GOVERNMENT OF KIRIBATI ANNUAL ACCOUNT

PART I- Government of Kiribati Annual Account
for the year ended 31 December 2020

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PART 1: INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE GOVERNMENT OF KIRIBATI ANNUAL ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2020

Disclaimer of Opinion

I have audited the Government of Kiribati Annual Account for the year ended 31 December 2020 in accordance with Section 114 (2) of the Kiribati Constitution, Part VI of the Public Finance (Control and Audit) Ordinance 1976 and Section 22(1) of the Kiribati Audit Act, 2017. The Annual Account comprise of the following:

- Statement of balance sheet
- Statement of receipts and payments by Heads or ministries
- Statement of comparative actual and estimated revenue & expenditures by subheads
- Statement of Special Funds' balances by annual and aggregate receipts and payments.
- Statement of other ledger accounts and remittances balances
- Statement of balances on advances account from Consolidated fund
- Statement of balances on advances accounts from deposits
- Statement of balances on deposit accounts
- Statement of contingent liabilities*
- Statement of investment
- Statement of outstanding loans made from the Consolidated fund*
- Statement of the Public Debt*
- Statement of arrears of revenue by subheads*
- Statement of the balance on the Development Fund
- Statement of balances on the suspense account
- Statement of unauthorized expenditure by subhead*

We do not express an opinion on the accompanying Kiribati Government Annual Account as at 31 December 2020. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

The following provides the basis on which the Disclaimer of Opinion is issued:

- Outstanding 2019 audit issues (*refer Table 1, page 7*)
- 2020 Significant audit findings:
 - Unable to confirm revenues and expenditures for government line ministries due to the weaknesses in the controls of these accounts (*Refer section 2, page 9*)
 - A significant balance of \$1.9 million unrepresented transactive payments with ANZ bank (*Refer section 3.1.1, page 10*)

*The above marked Statements are prepared by the Accountant General for information only but are not accounted or reflected in the Government of Kiribati Annual Account for year ended 31 December 2020.

- \$3.9 million un-identified debits for transactive payments in 2020 that appeared on the Government's No.1 ANZ bank account but not on the Government's General ledger. *(Refer section 3.1.2, page 10)*
- Unable to ascertain the accuracy of \$94 million in the No.3 account due to no guiding policy yet adopted in the reporting of foreign currency exchange transactions. *(Refer section 3.2.1, page 10)*
- IBD balance was overstated by \$2.5 million hence this is a continuing issue from previous years audit report. *(Refer section 3.6.1, page 11)*
- Non reconciliation and overdraft account for the Kiribati High Commission in the amount of \$1,358,229.30 *(Refer section 3.7.1, page 12)*
- A variance between Annual account and listing for salary advance amounted \$816,978.88 *(Refer section 5.1.1, page 15)*
- A significant variance of \$2,833,442.30 for imprest account 2020 between the Annual Account and the listing. *(Refer section 5.2.1, page 15)*
- Deficiencies in the record of Deceased Native Estate account *(Refer section 6.1.1, page 16)*
- Significant balance of suspense account in 2020 in the amount of \$29 million without written off procedures to clear off balances *(Refer section 9.1, page 19)*

I have conducted my audit in accordance with International Standard on Auditing (ISA). My responsibilities under those standards are described in the *Auditors' responsibilities* paragraph of my report. I am independent of the Ministry in accordance with ethical requirements that are relevant to my audit of the Government of Kiribati Annual Account, and I have fulfilled my other responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis to my opinion.

Emphasis of Matter

I draw attention on the preparation of the Government of Kiribati Annual Account for the year ending 31st December 2020 still haven't adopt applicable Accounting Framework i.e., International Public Sector Accounting Standards for Cash Basis.

Management Responsibilities for the Government Annual Accounts

The Accountant General is responsible for the preparation of the Government of Kiribati Annual Accounts in accordance with Public Finance (Control and Audit) Act, and the Financial Regulation 2011. He (Accountant General) is also responsible for the designing, implementation, and maintenance of internal controls relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor- General's Responsibilities for the audit of the government Annual Accounts

My objective is to obtain reasonable assurance about whether the Government of Kiribati Annual Account for the year ended 2020 as a whole are free from material misstatement, whether due to fraud or error,

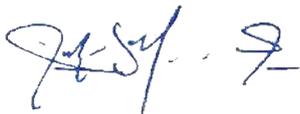
and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect material misstatements when it exists. Misstatements can arise from fraud and error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISA, I exercise professional judgement and maintain professional skepticism throughout the audit. I also

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis of opinion. The risks of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate and related disclosures made by the Ministry.

Communication with those charged with governance

I communicate with the Accountant General regarding among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that identify during my audit.



Eriati T Manaima

AUDITOR GENERAL

08th September 20

PART 2: SIGNIFICANT MATTERS ARISING FROM THE AUDIT OF THE GOVERNMENT OF KIRIBATI ANNUAL ACCOUNT FOR THE YEAR ENDED 2020

Outstanding Audit Issues 2019

Significant Audit Issues 2019	Management Responses
The variance found between IBD balance reported in the Annual account and bank confirmation amounted \$1.7 million	Refer management responses to PAC for 2019 Account
An amount of \$4 million remittances to outer islands has no supporting returns	Refer management responses to PAC for 2019 Account
Outer Island State fund balance reported in the Account is greater than the amount recorded in the Cash book by \$1.6 million	Refer management responses to PAC for 2019 Account
Unable to verify Bank Agency Arrangement account of \$5 million due to no listing provided	Refer management responses to PAC for 2019 Account
Prolonged other investment balances of over \$325k had been outstanding for over 10 years.	Refer management responses to PAC for 2019 Account

Table 1 Outstanding Audit Issues 2019

Current Year 2020 Audit Findings

1. STATEMENT I- Statement of Balance Sheet (GOK² Annual Account 2020 p.12)

STATEMENT I: BALANCE SHEET

Account Classifications	Notes (refer Statements)	2020	2019
Investments			
Investments with Northern Trust	XI	504,229,178.63	503,106,462.22
Investments with Blackrock	XI	668,207,498.20	650,282,153.44
Land in Fiji	XI	9,300,180.00	9,300,180.00
PIPA Trust Fund	XI	6,255,461.00	2,623,224.00
Other Investments	XI	\$156,088,201.51	\$324,736.90
		<u>\$1,344,080,519.34</u>	<u>\$1,165,636,756.56</u>
Cash			
Cast at Bank and on hand	VI	\$281,717,440.15	\$354,852,729.00
Cash in Transit	XIX	\$8,269,490.68	\$6,830,045.58
		<u>\$289,986,930.83</u>	<u>\$361,682,774.58</u>
Advances			
Public Officers	VII	\$9,352,150.48	\$15,893,410.71
Sundry Advances	VII	\$856,176.45	\$847,240.44
		<u>\$10,208,326.93</u>	<u>\$16,740,651.15</u>
SUSPENSE	XVII	<u>\$29,419,096.71</u>	<u>\$13,414,935.05</u>
TOTAL Assets		<u>\$1,673,694,873.81</u>	<u>\$1,557,475,117.34</u>
Less:			
Deposits			
Deceased Native Estates	IX	\$1,398,688.66	\$1,308,514.61
Public Officers	IX	\$14,482.46	\$14,357.66
Sundry Deposits	IX	\$6,866,398.64	\$804,600.48
Telmos	IX	\$7,285,631.16	\$4,613,943.91
Total Liabilities		<u>\$15,565,200.92</u>	<u>\$6,741,416.66</u>
Total Net Asset		<u>\$1,658,129,672.89</u>	<u>\$1,550,733,700.68</u>
ATTRIBUTABLE TO			
Consolidated Fund	II	\$179,972,222.92	\$144,501,458.83
Development Fund	XVI	\$116,684,167.49	\$110,586,179.03
Revenue Equalization Reserve Fund	XX	\$1,172,436,676.83	\$1,153,388,615.66
Special Funds	V	\$13,028,258.16	\$12,381,572.02
Other Funds	V	\$176,008,347.49	\$129,875,875.14
Total Equity		<u>\$1,658,129,672.89</u>	<u>\$1,550,733,700.68</u>

Table 2: Balance Sheet as at 2020 (Source: The Government of Annual Account 2020 p.12)

² GOK refers to Government of Kiribati

2. STATEMENT II- Statement of Receipt and Payments by heads (GOK Annual Account 2020 p.13)

The auditing of government Ministries' recurrent revenues & expenditures in 2020 focus on the evaluation of ministries' compliances with Government Financial Regulations, Procurement Act 2002, Approved Budget 2020, National Conditions of Services, and other applicable policies. *(The Detailed Compliance Audit Findings for individual ministry, Refer to Auditor's General Report on the Part II of the Government of Kiribati Annual account 2020).*

3. STATEMENT VI: Cash at Bank & on Hand (GOK Annual Account 2020 p.28)

STATEMENT VI: CASH AS AT BANK & ON HAND 31ST DECEMBER 2020

Cash at Bank and on Hand	GL CODE	2020	2019
No 1 Account	M0030000001A	15,908,779.48	32,276,512.42
No 3 Account	M0030000003A	94,679,568.42	0.00
No 4 Account	M0030000004A	81,901,071.92	41,313,004.98
No 5 Account (Kiritimati)	M0030000005A	29,602.42	-265,113.82
No 6 Account (Stabex Fund)	M0030000006A	6,576.00	6,576.00
Petty Cash (Recurrent)	M0030000007A	27,923.30	0.00
IBDs with BOK Ltd	M0030000008A	77,980,075.13	160,289,298.70
Kiribati High Com Bank Account	M0030000017A	-1,358,229.30	-36,318.55
Taipei Mission Bank Account	M0030000018A	-356,117.80	-356,117.80
New York Mission Bank Account	M0030000019A	53,304.86	-15,425.01
Taipei Mission Petty Cash	M0030000020A	-9,669.53	-9,669.53
Kiribati High Com Petty cash	M0030000022A	121,968.21	121,888.66
EFTPOS	M0030000023A	3,287,639.15	1,207,522.68
SSGA cash trust	M0030000024A	0.00	115,146,154.71
Other funds	M0030000025A	5,130,523.08	3,247,597.63
Project Petty Cash	M0030000026A	6,974.24	0.00
		277,409,989.58	352,925,911.07
OTHER- Cash with Subaccountant			
Sub-Accountants (M31s)		3,937.85	3,937.85
State Funds - Local Governments (M32s)		4,303,512.72	1,922,880.08
		4,307,450.57	1,926,817.93
TOTAL PER BALANCE SHEET		281,717,440.15	354,852,729.00

Table 3: Cash at Bank and on hand (Source: Government Annual 2020 p.28)

Findings and Analysis

3.1. Government No.1 Bank Account

The audit of Government No.1 Bank account relies on the review of transactive payments – the use of internet banking. The process of payments through internet banking began in 2017.

3.1.1. Unpresented Transactive payments of AUD 1.9 million

Years	Amount	Accumulated
2017	8,315.59	8,315.59
2018	3,879.92	12,195.51
2019	946,176.45	958,371.96
2020	945,577.70	1,903,949.66

Figure 1: Unpresented Transactive Payments 2017-2020

- As the above Figure 1 shows, around AUD \$2 million of these payments have not appeared on the GOK' No.1 bank account with ANZ between 2017-2020.
- This is very concerning given that Government has fully adopted the system during the year.

3.1.2. Un-identified Debits (transactive payments)

- Audit found \$3,923,200.13³ transactive payments in 2020 only, that appeared on the Government's No.1 ANZ bank account but not on the Government's General ledger.

3.2. Government No. 3 account

3.2.1. No Guiding Policy

The No.3 account is a new government bank account opened in 2020 mainly to accommodate US currencies. Of concern the audit noted that the reporting of foreign currency transactions is not yet adopting best reporting practices as no guiding policy yet in place to specify the use of foreign currency exchange rate. Without this policy, the audit cannot ascertain the accuracy of \$94,679,568.42 reported in the account.

3.3. Government No. 4 account

3.3.1. Outstanding transactive Bank Charges

Total outstanding payment for transactive bank charges reported in the reconciliation report is \$10,697.74 from 2017 to 2020.

3.4. Government No.5 account

The balance of No.5 in 2020 is \$29,602.42 compared to an overdraft in 2019 of \$265,113.82.

³ Obtained from Treasury Bank Reconciliation Unit.

3.4.1. Deposit not yet appear with Bank statement

As per reconciliation statement there is a significant amount of \$24,748.35 deposit not yet appear with the Bank in 2019 until date.

3.5. Government No.6 account

The same amount was reported in 2020 of \$6,576 compared to 2019 closing balance.

Recommendations:

- The audit recommend that MFED should prioritize strengthening the controls over transactive payments to avoid issues as mentioned above 3.1.1 & 3.1.2
- 3.2. A guiding policy should be developed for the No.3 account that would include the reporting of foreign currency exchange transactions to comply with best reporting practices.
- 3.4.1 The ministry concern should review their deposits in a timely manner to ensure that deposits appeared in the Bank statement. Deposits which are not appear with the bank should be reported immediately to the bank.
- 3.5. If the No.6 account is no longer needed, MFED should consider an official closing of account and transfer remaining funds to other government bank accounts.

Management Response

3.1 the system itself is far advance as the required controls had been uploaded in the system. However, our current system and procedure could not compliment Transactive as most of our tasks are done manually or semi-manual.

3.2 Management noted the recommendation and will work on devising a policy, or revising the financial regulation, for foreign bank account.

3.3. No response.

3.4 The No.5 account is an operating bank account for the MLPID. Bank reconciliation is done by their account team, hence management kindly request that this matter be referred to them.

3.5 No.6 account is for stabex which has been idle over years. Management will confirm whether the bank account for this remain opens or it has closed.

3.6. IBD with BOK Ltd

The audit noted the following issues with IBD accounts:

3.6.1. Overstatement of IBD account balance

In 2020 IBD balance was overstated by \$2.5 million hence this is a continuing issue from previous years audit report.

3.6.2. No IBD policy available for review

A weakness in the control of IBD accounts since of no policy yet in place to monitor the opening, closure, injection, and withdrawal of IBD accounts.

Recommendations:

- **3.6.1 Prior reporting of IBD balances in the Annual Account, the audit recommends that MFED should seek year end balances from the ANZ bank to ensure that the reported balance agree with ANZ confirmation.**
- **3.6.2 MFED should develop a policy to monitor the opening, closure, injection and withdrawal of IBD account.**

Management Response

3.6.1 No response.

3.6.2 Management would like to point out that creation and operation of IBDs is done in accordance with sections 6 and 13 as well as schedule 1 of the public finance ordinance (Cap79). If a policy is a must, then management will consider this.

3.7. Kiribati High Commission (KHC)

3.7.1. Overdraft bank accounts for Kiribati High Commission

Kiribati High Com Bank account in 2019 and 2020 both reported overdraft balances amounted \$36,318.55 and \$1,358,229.30 respectively. The audit concerns on the overdraft account as this is not a good position to operate an account due to the incur of higher bank charges and penalties.

3.7.2. Inability to confirm huge amount of Petty cash for KHC

The audit concerns on the use of huge petty in 2020 at KHC amounted \$121,968.21 yet unable to confirm this balance due to the inability to physically observe cash on hand.

Recommendations

- **Reconciliation of bank account for KHC should be enforced between the MFED and KHC to avoid overdraft account.**
- **KHC should maintain petty cash at a minimum level to avoid the use of huge petty cash**

Management Response

3.7.1 Management acknowledge that Kiribati High Commission bank account is an issue that have not resolve since there is no bank reconciliation that had been done. What reported in our annual report might be different to what in the Kiribati High Commission bank account. Management could not access to this bank account since it is in Fiji hence it would take time but Management hopes that this would be resolved in the new IFMIS system.

3.7.2 Auditor's accessibility to all records and bank accounts is not limited. However, inbound, and outbound travel to/from Kiribati was ceased for the lockdown at that time due to COVID-19 pandemic. However, other option could have been employed if the matter was referred to the management during the auditing stage. Nevertheless, Management noted the recommendation regarding the petty cash for KHC.

3.8. Taipei overdraft of bank account and negative petty cash balances

Despite the closed of Taipei mission in 2019, the annual account 2020 continue to report an overdraft bank account of AUD \$356,117.80 and negative petty cash amounted AUD \$9,669.53 in 2020.

Recommendations

A review of the Taipei account and petty cash should be done against bank confirmation and documentations to ensure the accuracy of balances and prior to writing off procedures.

Management Response

Taipei mission had been closed, no doubt its bank account and petty cash too. However, our report will continue to include these balances as there were no formal/legal liquidation procedure taken that will allow us to write off the balances from our book.

3.9. EFTPOS Outer Islands

The audit could not confirm the accuracy of EFTPOS balance due to the following issue:

3.9.1. Non match of records between GL and bank statement

The audit found a difference of \$423,046.78 between the general ledger of \$3,287,639.15 and bank statement as at 31 Dec 2020 amounted \$3,71,685.93.

Recommendations

The difference found between cash book and bank statement of \$423,046.78 should be reviewed and adjusted in the next account.

Management Response

3.9.1. No Response.

3.10. Outer Island State Funds- (M0032)

3.10.1. Negative balance for Post Office Bairiki

The review of Bairiki Post Office (M0032000001A) balance under the Island State Fund showed a closing negative amount of \$7,420 meaning that the account was not regularly reviewed and reconciled.

Recommendations

The Ministry of Finance should regularly review and reconcile state fund allocated to Post Office Bairiki.

Management Response

\$7,420(Cr) is a brought forward balance from FY2019. This relate to prior years as the 2019 to date had been reconciled. However, review and reconciliation are ongoing processes and adjustment will be made once the cause is identified. If not, management would propose for written off.

4. STATEMENT XIX: Cash in Transit (Refer GOK Annual Account 2020 p.61)

Findings and Analysis

4.1. Cash in Transit

Cash in Transit or Remittances closing balance at the end of 2020 was \$8.6 million compared to \$6.8 million in 2019.

4.1.1. Outstanding remittances in 2020

The audit noted total outstanding remittances in 2020 of \$918,517.45 meaning a balance remitted to local governments and no returns to support how these remittances have been used.

Local Government	GL Code	DEBIT	CREDIT	Balance
Abaiang	M0033000003A	6,805,505.00	6,804,460.00	1,045.00
Abemama	M0033000004A	2,960,255.00	2,958,920.00	1,335.00
Aranuka	M0033000005A	1,361,560.00	1,271,780.00	89,780.00
Arorae	M0033000006A	695,015.00	695,430.00	-415.00
Beru	M0033000007A	1,755,025.00	1,629,150.00	125,875.00
Butaritari	M0033000008A	4,057,895.00	4,058,940.00	-1,045.00
Kuria	M0033000009A	874,260.00	939,630.00	-65,370.00
Maiana	M0033000010A	2,598,220.00	2,472,690.00	125,530.00
Makin	M0033000011A	853,705.00	724,000.00	129,705.00
Marakei	M0033000012A	1,760,000.00	1,635,835.00	124,165.00
Nikunau	M0033000013A	1,516,400.00	1,376,120.00	140,280.00
Nonouti	M0033000014A	4,726,025.00	4,674,745.00	51,280.00
Onotoa	M0033000015A	1,373,310.00	1,373,310.00	18,269.13
Tab North	M0033000016A	2,693,945.00	2,819,745.00	-125,800.00
Tab South	M0033000017A	1,250,875.00	1,318,355.00	-67,480.00
Tamana	M0033000018A	656,805.00	726,135.00	-69,330.00
Banaba	M0033000019A	180,000.00	180,120.00	-120.00
Kiritimati	M0033000020A	9,073,725.00	8,804,718.00	269,007.00
Fanning	M0033000021A	486,100.00	283,270.00	202,830.00
Washington	M0033000022A	595,345.00	596,000.00	-655.00
Abaokoro	M0033000023A	2,605,750.00	2,560,310.00	45,440.00
Kanton	M0033000024A	-	12,283.71	-12,283.71
Kiribati High Commission	M0033000027A	6,156,299.90	5,301,698.59	854,601.31
Mission in Taipei	M0033000028A	-	863,537.10	-863,537.10
Mission in New York	M0033000029A	703,899.51	737,942.30	-34,042.79
Postmaster Bairiki	M0033000601A	-	6,353.24	-6,353.24
Post Office- Bikenibeu	M0033000602A	-	12,583.54	-12,583.54
Postmaster Betio	M0033000603A	-	1,609.61	-1,609.61
TOTAL		55,739,919.41	54,839,671.09	918,517.45

(Source: Extracted from General Leger Annual Account 2020)

Recommendations

MFED should review returns on a regular basis to avoid significant outstanding remittances.

Management Response

4.1.1 No Response.

5. STATEMENT VII: Advances from the Consolidated Fund (GOK Annual Account 2020 p.29)

Findings and Analysis

5.1. Salary & personal advance (L100)

5.1.1. Difference of \$816k between Annual account and listing provided

Outstanding Salary Advances	2020
Balance as per Annual Account	\$ 6,134,978.10
Balance as per Listing	\$ 5,317,999.22
Difference	\$ 816,978.88

The above table shows a difference of \$816k between Annual account 2020 and the listing provided.

5.2. Standing Imprest (L200A)

5.2.1. Significant difference of \$2.8 million between Annual account and listing provided

Outstanding Imprest	2020
Balance as per Annual Account	\$ 2,446,564.91
Balance as per Listing	\$ 5,280,007.21
Difference	\$ 2,833,442.30

As per table above, the audit found a huge difference of \$2.8 million between the Annual Account and the listing. Further review indicates that the listing includes balances of over \$3.2 million prior 2014 that need to be written off. This is very concerning given that MFED could not fully write off these outstanding records from the system.

Recommendations

- **KAO strongly recommends, MFED to review salary advances and to correct this in the next account to ensure that the listing match with the annual account.**
- **KAO strongly recommends that MFED should fully write off outstanding imprest prior 2014 from the Attaché system so that the Listing would match with the reported balance in the Account.**

Management Response

5.1.1 The amount shown in the annual account includes other individual accounts directly created in the main gl. Those individual accounts have balances which are not captured in the module ageing report.

5.2.1 According to an explanation by the responsible officer, the ageing report reflects the total outstanding imprest each customer has in the module which also include the amount that had been recommended to be written off hence the adjustment was only done in the main General Ledger, this is much easier rather than to adjust these balances individually in the system.

6. STATEMENT IX: Deposit accounts (GOK Annual Account 2020 p.30)

Findings and Analysis

6.1. Deceased Native Estate (DNE code S00')

Deceased Native Estate balance at the end of 2020 totaled \$1.39 million compared to a balance of \$1.31 million in 2019. The audit could not verify the accuracy of DNE balance due to the following issues:

6.1.1. Deficiencies in the records for DNE

- The audit found a difference of \$133,301 between the Annual Account and Listing provided by the LAND division.
- Our review of extracted records from General Ledger the audit found total positive balance of \$15,181.65 indicating an overpayment issue.
- The audit noted that the Land division did not maintain DNE records since of no record maintained for year 2009 which is important to show withdrawals and brought down balances for subsequent years.

6.2. No.1 Unidentified Credits

The above account refers to local and foreign direct credits which could not be identified when they appeared in the bank statement (No.1 account) therefore are dumped under deposit account (liability).

6.2.1. Significant balance of unidentified credits

In 2020 total unidentified credits in the No.1 account is \$7 million and with concern this is significant and yet the balance reduced very slowly during the year by only 4% or 300k compared to 2019 account.

Recommendations

Deposit accounts should be reviewed, reconciled, and adjusted to avoid positive and huge outstanding balances.

Management Response

6.1.1 Management requested that this matter be referred to the concerned Ministry – MELAD and Division – Land Department.

6.2.1 No Response.

7. STATEMENT X: Investment (GOK Annual Account 2020, p.32)

STATEMENT XI: INVESTMENTS

**Government of Kiribati
Statement of Investments as at 31st December 2020**

GL CODES	DETAILS	2020	2019
	RERF		
V0060000200A	Investment with Northern Trust Asset Managers	504,229,178.63	503,106,462.22
V0060000204A	Investment with Blackrock Asset Managers	668,207,498.20	650,282,153.44
		<u>1,172,436,676.83</u>	<u>1,153,388,615.66</u>
	FURTHER RERF INVESTMENTS		
V0060000201A	Escrow Investment (Fiji land purchase)	9,300,180.00	9,300,180.00
V0060000202A	Investment with PIPA Trust Fund	6,255,461.00	2,623,224.00
		<u>15,555,641.00</u>	<u>11,923,404.00</u>
	OTHER INVESTMENTS		
V0060000105A	IMF No.2	292,186.50	292,186.50
V0060000203A	State street	155,763,464.61	-
V0060000110A	Aud A/c 55-1999 5th Anniversary	23,819.40	23,819.40
V0060000124A	Aud A/c 56-0449 10th Anniversary	8,731.00	8,731.00
		<u>156,088,201.51</u>	<u>324,736.90</u>
	TOTAL	<u>1,344,080,519.34</u>	<u>1,165,636,756.56</u>

Table 4: Investment Balances for Financial years 2019-20 (Source: Government Annual Account 2020, page 32)

Findings & analysis

7.1. RERF

More detailed analysis and findings Refer to section 11.

7.2. Escrow Investment (Fiji Land Purchase)

7.2.1. No change in value

No audit performed since of no change in value of \$9.3 million in 2019 and 2020.

8. STATEMENT XIV: Arrears of Revenue (GOK Annual Account 2020, p.37)

Findings & Analysis

8.1. Arrears of Revenues 2020

During the year, there were three ministries reporting their Arrears of Revenue as listed below:

Year	Ministry	Amounts	Notes
2020	MCIC	15,942.00	Outstanding rental charges from 2015 to 2020 for small industry Center & container yard
2020	High Court	900.00	Practicing fee from private lawyers
2020	MM	49,596.95	Maneaba hire, air & sea fares plus freight from private & ministries

(Source: Government of Kiribati Annual Account 2020, page. 37)

8.1.1. Tax office Arrears

The audit noted a total of \$51 million arrears with the tax office not yet reported under arrears of revenue.

8.1.2. Weakness over the collection of arrears of revenue

The audit concerns that even ministries do have arrears but still there is little chance to collect these revenues.

Recommendations

- **A strict enforcement on the report and submission of arrears of revenue should be practiced by MFED to concern line ministries as per stipulated under FR section 4.35**
- **The procedure for collection of arrears of revenue should be strengthened and officers responsible for control over revenues should ensure that the procedures are implemented and adhered to.**

Management Response

8.1.1. Tax arrears for 2022 was provided. This is the first time receiving this request from Treasury. We have not received any requests on outstanding tax arrears for previous years. Besides, the \$51m is not reflected in the Annual Account because this much is not realistic to report on as some taxpayers are deceased, closed, gone for good, inactive so therefore the Debt Management team are now working to confirm this as a way forward to the Tax office.

8.1.2. Our current practices and systems are limited in enforcing FR s4.35 as most of the activities are done manually or semi manual. Even so our system did not capture the arrears of revenue at the initial stage, but there is hope that this would be resolved when the new system (IFMIS) is launched. However, for each year end, management always inform all SAs/OICS in Line Ministries to compile and forward all records of their arrears of revenue. What reported in the 2020 annual account are the ones that comply with that instruction.

9. STATEMENT XVII: Suspense Account (GOK Annual Account 2020, p. 59)

Findings & Analysis

9.1. Suspense account

Suspense account relates to temporarily accounts that could not be identified and supported therefore transited in the account awaiting major write off procedures.

Year	Balance	Accumulated Balance
2012	-	-
2013	4,885,005.56	4,885,005.56
2014	-	4,885,005.56
2015	(5,103.00)	4,879,902.56
2016	2,070.42	4,881,972.98
2017	5,142,982.71	10,024,955.69
2018	2,013,114.43	12,038,070.12
2019	1,376,865.21	13,414,935.33
2020	16,004,161.66	29,419,096.99

(Source: Extracted from Kiribati Annual Account 2020, page. 59)

9.1.1. Huge balance in the suspense account

The above table showed that total accumulation of suspense account from 2012 to 2020 was \$29 million. The bulk of balance comes from the unidentified and unsupported balances amounted \$16 million allocated in 2020.

9.1.2. No written off procedures performed

Of concern the audit noted that these balances are dumped in the account for over 7 years without any performance of writing off procedures to clear them off.

Recommendations

KAO strongly recommends that these prior periods balances should be cleared off immediately.

Management Response

9.1.1 *The cumulation in suspense account is caused by prior years items that the management had managed to identify since 2013. These are items that are either have their balance idle (Odl GL account no longer in use) or that management could no longer reconciled. As agreed with Auditors, such items must be journalized to suspense account to await the write off.*

9.1.2 *Management noted the recommendation but doing so would require a proper authority (Public Finance Ordinance s45(1)) which is only from Parliament. Management sincere ask for reconsideration of the 7 years as such is only for the preservation of accounting records and documents (FR s10(2)), except for personnel emoluments (FR s10(3)), hence this should not be considered not a timebound for the write off.*

10. STATEMENT XVII: Unauthorized expenditure by Ministry (GOK Annual Account 2020, p. 60)

Any officer allowing or directing any disbursement without proper authority will be held personally responsible and in the event of any unauthorized payment being made the amount may be surcharged against him.⁴

Ministry	2020 Original Budget	Revised Budget 2020	Actual 2020	Over/(Under)
MEHRD	5,047,270.00	5,047,270.00	5,104,986.29	57,716.29

(Source: Extracted from Government Annual account 2020, page. 60)

10.1. MEHRD⁵ Unauthorized expenditures

Unauthorized expenditures reported in 2020 concerns only one ministry MEHRD with an overspent amount of \$57k.

Recommendation

Ministries should avoid overspending their annual budget as this is the non-compliance to the budget policy approved by Parliament.

Management Responses

Management requested that this matter be referred to the concerned Ministry as they can provide full clarification. Management is still trying to resolve issue but doing so at this stage is quite challenging as most of the activities are done manually, or semi-manual. However, there is hope that this will be resolved in the new system (IFMIS) when it is launched.

11. STATEMENT XIX: Revenue Equalization Reserve Fund (GOK Annual Account 2020, p.62)

Findings & Analysis

11.1. Balance of RERF⁶ as of 31 December 2020

Total closing market value as at 31 Dec 2020 is \$1,172,436,677.03 compared to a balance of \$1,153,388,615.66 in 2019.

11.1.1. The transfer of \$40 million from RERF

The audit is unable to complete the review of RERF due to no supporting document provided from SOEMAU division for the above transfer.

⁴ FR section 9.4

⁵ MEHRD refers to Ministry of Employment, Human Resources Development

⁶ Refer to Statement XX: Revenue Equalisation Reserve Fund (Annual Account 2020 p.62)

Recommendation:

SOEMAU should provide supporting documentations as per requested during the audit.

Management Responses

SOEMAU still work on KAO letter requesting for documentations and information necessary for the review of RERF dated 30/08/22.

12. Losses of Public Funds and Stores

12.1. Losses of Public Funds & Stores by Ministry for years 2003- 2018⁷

Ministry	Amount
MFED	366,072.65
MFMRD	455.70
MCTTD	56,478.11
MWU	31,200.00
MLHRD	5,137.50
Judiciary	5,328.60
KPPS	15,221.35
MIA	58,263.19
MHMS	87,912.88
MOE	7,898.59
MELAD	-
MLIPD	2,501.23
PSC	4,720.00
OB	7,353.50
Total	648,543.30

The account may not be forming part of the Annual Account, but it is worth reporting the losses of public funds and stores to ensure that government assets are properly maintained and safeguarded. The above table summarized losses for each ministry from 2003 to 2018.

The review of register provided by Internal Audit office reported a total of \$648k losses of public funds from 2003 to 2018. There were no losses reported in current years 2019 to 2020 whether the records were not updated, or no issues yet found during these years.

Recommendations

The timeliness and effective functioning of internal audit office would reduce the chances of fraud issues existed within ministries.

Management Responses

My discussion with the Senior Internal Auditor dated 14/09/21, he mentioned that many of fraud cases found at ministries were pending due to the lengthy process of police investigation.

⁷ Source extracted from Internal Audit Division (Ministry of Finance)

**PART 3: THE KIRIBATI GOVERNMENT ANNUAL ACCOUNT FOR THE YEAR ENDED
31 DECEMBER 2020**