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KIRIBATI NATIONAL AUDIT OFFICE

KNAO

AUDIT FOR AN IMPACT FOR THE PUBLIC

Auditor-General Report on
The Accounts of the Government of the Republic of Kiribati for the Year Ended 31 December 2012

Part 2: Statement I to XX

<u>August 2014</u>

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Honorable Taomati Iuta
Speaker of the House of Parliament
Republic of Kiribati

Dear Sir,

I have the honour to transmit herewith the Audit Report on the Government Annual Accounts for 2012 to the House of Parliament, to be laid before the House in accordance with Section 114(3) of the Constitution.

I have included matters, which relate to the performance of my duties and the exercise of my powers under the Public Finance (Control and Audit) Ordinance 1976.

The report comprised of the following parts:

- Part 1:Revenue and expenditure: Government of Kiribati Ministries, and
- Part 2:Statements I to XX

As required by Section 114(3) of the Constitution, I have delivered copies of the reports to His Excellency Te Beretitenti and the Minister of Finance and Economic Development.

Yours faithfully,

Matereta B Raiman
Auditor General

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I) ABBREVIATIONS AND ACRONYMS

ADB – Asian Development Bank
AO – Accountable Officer
BOS – Board of Survey
CPA – Commonwealth Parliamentarian association
EU – European Union
FR – Financial Regulation
FTC – Fishing Training Centre
GL – General Ledger
GRR – General Receipt
KIT – Kiribati Institute of Technology
KNAO – Kiribati National Audit Office
KPF – Kiribati Provident Fund
KPPS – Kiribati Police and Prison Services
LCDF – Local Contribution to Development Fund
LPO – Local Purchase Order
MCTTD – Ministry of Communication, Tourism and Transport Development
MFAI – Ministry of Foreign Affairs and Immigration
MFED – Ministry of Finance and Economic Development
MFMRD – Ministry of Fisheries and Marine Resources Development
MHMS – Ministry of Health and Medical Services
MISA – Ministry of Internal and Social Affairs
MLHRD – Ministry of Labor and Human Resource Development
MLPID – Ministry of Line and Phoenix Island Development
MOE – Ministry of Education
MPWU – Ministry of Public Works and Utilities
MTC – Marine Training Centre
OAG – Office of the Attorney General
OB – Office of Te Beretitenti
PSC - Public Service Commission
PSO – Public Service Order
PVU – Plant Vehicle Unit

Note: Currency mentioned in this report is the Australian dollars.

II) FOREWORD

The Annual Account of the Republic of Kiribati is normally presented in accordance with section 39 of the Public Finance (Control and Audit) Act 1976 and should be submitted to the Auditor General within six months after the financial year: 31 December. The 2012 Annual Account was submitted on the 25 June 2013, which is within the statutory timeframe.

The 2012 annual accounts was prepared under the Cash Basis Accounting and comprise of the Balance Sheet (Financial Position) and Statements of Income and Expenditure (Financial Performance). The disclosure of the Annual Accounts follows the requirement of the specific provisions of the Public Finance (Control and Audit) Act, 1976 as amended.

Other disclosure requirements that do not form part of the Annual Account include: Contingent Liability, Arrears of Revenue, Public Debts and Losses of Fund.

As mentioned in my last audit report, the scope of our audit was extended to cover also activities funded by projects: both from Local and Overseas approved by Parliament. This year, we had audited most of the locally funded projects and a few from those funded by our Development partners. Our audit testing revealed the same persisting problem of the lack of proper reconciliation of accounts.

Despite above comments, it was, however, pleasing to note a substantial increase of the No.1 Bank account balance level which, as per bank details, enabling Government to do away with Bank Overdraft and high interest charges. This is due to a notable improvement in the revenue collection from fishing license.

Because of the issues repeatedly detected, the position of the 2012 Annual Account was still far from attaining its objectives of relaying reliable information on the stewardship of the scarce resources of the Republic of Kiribati.

Certainly, the remedial actions to the above issues would be the implementation of audit recommendations. The public audit by definition is not only an expression of opinion on financial statement but also to bring about reform to government financial operation and reporting so that the public are well informed on how well their scarce resources have been managed and whether public funds appropriated have been used as intended.

III) AUDIT OPNION

I have audited the Government Annual Account for the year ended 31 December 2012. The preparation and presentation of the accounts are the responsibility of the Accountant General who transmitted them to Audit Office in accordance with Cap. 79 Part VI of the Public Finance (Control and Audit) Ordinance 1976. It is also the responsibility of the Accountant General to ensure the information contained therein, as well as the existence of internal controls, should be fully effective for the prevention of error or fraud.

My responsibility is to express an opinion on the account based on my audit as required by Section 114 of the Constitution and Part V and VI of Cap 79 of the Public Finance (Control and Audit) Ordinance 1976 as amended.

I conducted my audit in accordance with the provisions of the Ordinance 1976 to provide reasonable assurance as to whether the accounts are free of material mis-statements and errors. My procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the accounts and ensuring that operations are delivered within the appropriated funds. These procedures have been undertaken to form an opinion as to whether, in all material respects, the Public Accounts, in accordance with the requirements of the Ordinance 1976, present a fair view of the transactions of the Consolidated Fund including other matters and are in consistence with my understanding of those operations.

The accounts, however, does not purport to reflect the total activity of Government and, as it is prepared essentially on a cash basis, it does not disclose at year end the unpaid commitments. Further it also does not disclose Government Fixed Assets and Liabilities nor project funds received outside of the Government No. 4 bank account neither opening balances of such at the beginning of the year 2012.

Qualifications

1) Outstanding audit recommendations for 2011, 2010, and 2009 Annual Accounts
2) The variance of $923,637 found between Ministry of Finance ($58.3m) and Ministry of Fisheries ($57.4m) (Refer to section 3 of this report)
3) The variance of some $434k between custom plus postal records ($14.8m) and MFED ($15.2m). (Refer to section 3) are Reconciliations issues
4) The actual spending of the LCDF approved budget was not reflected in the Consolidated Fund (Refer to section 4.1, 4.1.1 and 4.1.1a).
5) The transfer of $60k from a/c # 784255 to business loan, a/c #: 784225 appearing on the bank statement (for a/c # 784255) from August 2010 until 29 October 2012. (Refer to section 4.2.1)
6) The absence of source document for outstanding deposits of $335,516.52 (Refer to section 6.1.iii)
7) The incorrect posting of the KPF Clearing account balance of negative $109,250.37 to the Cash on hand and at Bank. (Refer to section 6.1.iv)

8) The amount of Advances account of $6,418,825.93 which contained un-reconciled, unsupported and unrealistic figures from previous years, including Salary advance, Bounced Cheques and others (Refer to section 7.1.1)
9) The net Sundry Deposits of $7.35m was incorrect as its comprised of unsupported and unrealistic balances, including Bank Agency Arrangement: $2, 757, 814.31 and Telmo - $5,154,460.72 (Refer to Sec. 9.1.1).
10) The omission of GOK TERM LOAN of $8,315,472 (Refer to sec. 10.1 refers)
11) The amount of $432,611.33 from the total Other Investment balance of over $2m was unrealistic (Refer to sec. 11.1) and
12) The value of the Development Fund of $15,016,044.24 was incorrect (Refer to Sec. 16.2)

Qualified Audit Opinion

In our opinion, the financial report of the Government of Kiribati complies with relevant provision of the Public Finance (Control and Audit) Act 1976, however, because of the effect of matters discussed in the qualification paragraphs above, the annual account for the Government of Kiribati does not present fairly in accordance with the applicable Accounting Standard and other mandatory professional reporting requirements of the financial position of Government as at 31 December 2012 and the results of its operations and its cash flows for the year then ended.

Other issues

Excluded from the Qualification list above is the issue highlighted under the RERF which relates to the tax deduction appearing in the RERF statement. See section 19.4.5.

Matereta Raiman

Auditor General

IV) COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

A) LEGISLATIVE COMPLIANCE SYSTEMS

We noted not much attention was paid to the provisions of governing legislations and regulations by accountable /accounting officer therefore we highly recommend that all supervisors should make sure their accounting officers have on hand and observe governing legislations to guide them when managing public funds.

B) BREACHES OF SIGNIFICANT LEGISLATION

During the audit, our main focus is on the Government of Kiribati financial reporting obligations. As part of our planning process we identified CAP 79 the Public Finance (Control and Audit) Ordinance 1976 as key legislation and Financial Regulations with which accountable officers should comply. While our focus is on financial reporting obligations, we do maintain an awareness of other legislations that impact on the annual account. We noted the following breaches of legislation:

Non-compliance with CAP 79 Public Finance (Control and Audit Ordinance) 1976

- Section 27 states that *'any deposit which is unclaimed for 5 years shall be paid into the Consolidated Fund for the public purpose of the Government. Provided that if any person entitled thereto shall subsequently prove to the satisfaction of the Chief Accountant his claim to any such deposit the Chief Accountant shall thereupon refund to such person his deposit'.*

This section has not been practiced as according to MFED there were prolonged unclaimed deposits for prior years which are posted under the Prior Period Items (PPI). Refer to section 9 subsection 9.1 on Sundry Deposits: Statement IX.

V) 2012 ANNUAL ACCOUNT SCORECARD

	ASSETS	**2011**	**2012**	**2011 Rating**	**2012 Rating**
	INVESTMENTS				
XX	Investments with HSBC	294,542,418.28	309,517,188.31	C	C
XX	Investments with NICAM	284,396,686.38	304,358,195.01	C	C
XI	Other Investments	1,377,385.58	2,339,118.77	C	C
		580,316,490.24	**616,214,502.09**		
	CASH				
VI	Cash on Hand & bank	-5,493,883.07	15,069,139.53	D	D
XIX	Cash in transit	575,762.35	643,130.35	D	D
		-4,918,120.72	**15,712,269.88**		
VII	**ADVANCES**				
	Other Governments	7,066.00	7,066.00	C	C
	Public Officers	11,104,425.08	11,780,926.43	D	D
	Sundry Advances	-627,495.86	-507,207.17	D	D
		10,483,995.22	**11,280,785.26**		
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-1,046,476.59	-1,128,790.64	D	D
	Public Officers	-33,699.54	-24,856.54	C	C
	Sundry Deposits	7,784,943.95	7,346,993.27	D	D
	Telmos	-5,610,864.23	-5154,460.72	E	E
		1,093,903.59	**1,038,885.37**		
	NET TOTAL ASSETS	**586,976,268.33**	**644,246,442.60**		
II	Consolidated Fund	-10,237,696.38	11,282,176.52	C	B
XVI	Development Fund	16,187,943.33	15,016,044.24	C	D
XX	RERF	578,939,104.66	613,875,383.32	B	B
V	Stabex	-3,086,083.38	-2,617,508.35	D	D
V	Other Special Funds	5,173,000.10	6,690,346.87	B	B
	Grand Total	**586,976,268.33**	**644,246,442.60**		

VI) OVERVIEW

This report is part 2 of the Auditor General report on the Annual account of the Government of Kiribati and it presents the results of audit findings for Statement I to XX aligned with the contents of the Annual account 2012 provided by MFED (Balance Sheet). Recommendations given in this report which aimed at improving programs and operations and lend to providing better services to the public are the bottom lines of our audit work.

Most of the issues highlighted in this report were repetitive indicating a slow improvement in the system. We are concerned of the effect the poor status of the Annual Accounts would have on high level management and economic decision. I am glad to see that a few of our recommendations had been considered as reflected in the 2012 Annual Account.

As government is operating on cash basis there has to be an effective system in place for control and management of cash and bank accounts coupled with constant reconciliation the absence of which would result in drastic drain in government coffer.

MFED or management is primarily responsible for resolving and implementing recommendations promptly and effectively. At the same time we, as auditors, with the assistance of the PAC (Public Accounts Committee), are responsible for following up to see that actions are taken and intended results are realized.

1. Statement I: Balance Sheet

1.1. Assets and liabilities

As required under section 39 (1)(i) of Cap 79, the Accountant General within six months after 31 December should transmit the Balance Sheet, part of the Public Account, to the Auditor General. At the end of 31 December 2012 the submitted Balance Sheet for Government of Kiribati held the following assets and liabilities:

Table 1a: GOK Assets and Liabilities

Stat		2010	2011	2012	12 Inc/(Dec)
	ASSETS				
	INVESTMENTS				
XX	Investments with HSBC	298,529,501	294,542,418.28	309,517,188.31	14,974,770.03
XX	Investments with NICAM	282,387,029	284,396,686.38	304,358,195.01	19,961,508.63
XI	Other Investments	1,560,037	1,377,385.58	2,339,118.77	961,733.19
		582,476,567	**580,316,490.24**	**616,214,502.09**	**35,898,011.85**
	CASH				
VI	Cash on Hand & bank	4,527,937	-5,493,883.07	15,069,139.53	20,563,022.60
XIX	Cash in transit	248,994	575,762.35	643,130.35	67,368.00
		4,776,931	**-4,918,120.72**	**15,712,269.88**	**20,630,390.60**
VII	**ADVANCES**				
	Other Governments	7,066	7,066.00	7,066.00	0.00
	Public Officers	10,067,025	11,104,425.08	11,780,926.43	676,501.35
	Sundry Advances	1,720,727	-627,495.86	-507,207.17	120,288.69
	Total Assets	**11,794,818**	**10,483,995.22**	**11,280,785.26**	**796,790.04**
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-1,134,598	-1,046,476.59	-1,128,790.64	-82,314.05
	Public Officers	86,956	-33,699.54	-24,856.54	8,843.00
	Sundry Deposits	8,962,032	7,784,943.95	7,346,993.27	-437,950.68
	Telmos	-4,279,481	-5,610,864.23	-5154,460.72	456,403.51
		3,634,909	**1,093,903.59**	**1,038,885.37**	**-55,018.22**
	NET TOTAL ASSETS	**602,683,255**	**586,976,268.33**	**644,246,442.60**	**57,270,174.27**

(Source: GOK Annual Accounts: 2010, 2011 and 2012)

1.2. Net Total assets

The table below details balances of funds comprising the Realized Net Total Assets.

Table 1b: GOK Net Total assets

Title	2009	2010	2011	2012	INC/(DEC)12
Consolidated Fund	7,877,439	8,416,098	-10,237,696.38	11,282,176.52	21,519,872.90
Development Fund	3,785,527	13,245,321	16,187,943.33	15,016,044.24	-1,171,899.09
RERF	570,913,487	580,916,530	578,939,104.66	613,875,383.32	34,936,278.66
Stabex	-2,965,782	-3,186,006	-3,086,083.38	-2,617,508.35	468,575.03
Other Special Funds	3,334,639	3,291,282	5,173,000.10	6,690,346.87	1,517,346.77
Grand Total	**582,945,310**	**602,683,225**	**586,976,268.33**	**644,246,442.60**	**57,270,174.27**

(Source: 2012 Annual Account)

The Realized Net Total Assets has been increased by $57.3 million in 2012 when compared to a decrease of $15.7 million in 2011. Hence the increase in 2012 was related to a major increase in the balance of the consolidated fund by $21.6 million and RERF by $34.9 million.

At the outset however, the above net total asset balance did not account for previous audit adjustment together with the audit adjustment for 2011 as per Qualification given above. Therefore I was unable to state that the above presents fairly the position of the Kiribati Government Annual Account for year ended 31 December 2012.

2. Statement II: Consolidated Fund

2.1. Establishment and Purpose of the Fund

The Constitution of the Republic of Kiribati calls for the creation of the Consolidated Fund. Rules governing its use are to be found in the Public Finance [Control and Audit] Act whose aim is to provide finance for the Recurrent and Development Budgets after Parliament has approved the expenditure level of the public service. Consolidated Fund (or Statement II) also refers to statements of receipts and payments required under Section 39 (1)(ii) of the Cap 79 discussed in detail in Part 1 and summarized in Table 2a below:

2.2. Balance of the Fund

The table below shows the balance of the fund over the past several years.

Table 2a: Consolidated Fund balances 2009-2012

Title	**2009**	**2010**	**2011**	**2012**
	$	**$**	**$**	**$**
Balance Brought Forward	9,329,496	7,877,439	8,416,098	-10,237,696
Add:				
Total Revenue collected	87,580,090	95,736,073	81,560,123	128,839,152
Sub-total	**96,909,587**	**103,613,512**	**89,976,221**	**118,601,456**
Less:				
Total Expenditure incurred	89,032,148	95,197,414	100,213,917	107,319,279
Excess/(Deficit) of Actual Revenue Over Expenditure	**7,877,438**	**8,416,098**	**-10,237,696**	**11,282,177**
RERF drawdown	**18,000,000**	**17,300,000**	**19,700,000**	**37,500,000**
Adjusted Revenue	**69,580,090**	**78,436,073**	**61,860,123**	**91,339,152**
Adjusted Deficit	**-19,452,148**	**-16,761,414**	**-38,353,917**	**-15,980,127**

(Source: 2010, 2011, and 2012 Annual Account)

The above table shows balances in the consolidated fund for the years 2009 to 2012. The 2012 account reflects an improvement in the deficit when compared to the last three years.

As stated above, the reader of this report is kindly reminded that the accuracy of the figure as per table, except the RERF figure, is not guaranteed as evidenced by the audit findings below.

3.0 SIGNIFICANT MATTERS ARISING FROM THE AUDIT

The following significant matters have been raised for management to consider:

3.1 Statement III: Government Major Revenues

Recommendations

- It is recommended that the MFED and the concerned Ministries do monthly reconciliation of their revenue accounts and maintain adequate supporting records.
- Ministries revenue collectors have to maximize their revenues as already pledged during budget preparation (those responsible for revenue under collected)
- (3.3.3.) Taxation office has to ensure it reconciles its figures with MFED records.

Findings and analysis

3.1.1 Estimate against actual revenues 2011 & 2012

Table 3a Revenue Estimate against Actual 2011 & 2012

Revenue	**2011**		**2012**		**2012 Variance**
Title	**Estimate**	**Actual**	**Estimate**	**Actual**	**Act vs. Estimate**
Fishing License	31,508,550.00	29,070,251.00	30,000,000	58,329,770	28,329,770
Import Duty	17,960,000.00	15,427,920.00	17,960,000	15,215,553	(2,744,447)
RERF	0.00	19,700,000.00	22,500,000	37,500,000	15,000,000
Company taxation	7,228,000.00	5,679,001.00	7,500,000	4,734,410	(2,765,590)
Hotel tax	58,089.00	65,600.00	85,000	91,708	6,708
Dividends	1,300,000.00	1,702,885.00	1,850,000	871,791	(978,209)
Interest on Consolidated Fund	0.00	0.00	11,300	110,638	99,338
Personal tax	5,555,000.00	6,090,686.00	7,000,000	7,300,639	300,639
Cruise Line Revenues	206,000	0.00	0.00	0.00	-
JAXA (Downrange & Air Service)	1,600,000	0.00	2,700,000	1,391,953	(1,308,047)
Open ship registration	400,000	518,251.00	0.00	0.00	-
Air space usage fee	150,000	0.00	0.00	0.00	-
Sub- Total	**65,965,639.00**	**78,254,594.00**	**67,106,300**	**125,546,462**	**35,940,162**
Ministry Revenue	4,401,800.00	3,305,529.00	3,663,158	3,292,690	(370,468)
Loan			**2,019,551**		
Total	**70,367,439.00**	**81,560,123.00**	**95,289,012**	**128,839,152**	**58,069,694**
Adjusted less RERF		**61,860,123.00**		**91,339,152**	

(Source: 2011 and 2012 Annual Account)

Table 3a reflects an overall revenue result for the past two years. Actual Revenues excluding RERF drawdown of $61.9 million in 2011 had increased by 48% to $91.3 million in 2012. The growing number of fishing vessels in our EEZ had contributed a lot to the increase of total revenues. In contrast revenue collected from other four major revenue items, namely, Import duty, company tax, dividends & Jaxa revenues, were under by a total of $7.8 million, the shortfall of which could have elevated the revenue excluding the RERF from $91.3 to $99.1 million and yield promising returns to Government's coffer. It is therefore of paramount importance for concerned revenue collectors to exert policing and enforcement measures in collecting their revenues.

3.1.2 Actual Revenues from 2010 to 2012

Table 3b Actual Revenues 2010-12

	2010 Actual	2011 Actual	2012 Actual	Change
Fishing License	41,707,580	29,070,251	58,329,770	29,259,519
Import Duty	14,799,253	15,427,920	15,215,553	-212,367
Personal tax	6,053,389	6,090,686	7,300,639	1,209,953
Company tax	7,345,675	5,679,001	4,734,410	-944,591

(Source: 2010, 2011 & 2012 Annual Account)

The above table shows that Fishing License and Personal tax were significantly increased by $29 and $1.2 million respectively in 2012 while Import duty and company tax were down by respective amounts as shown in the above table.

3.1.3 Revenue Reconciliation 2012

Highlighted in the table below is the comparison of revenue records as at 2012 between MFED and concerned ministries or divisions.

Table 3c Revenue between MFED & concern Ministries 2012

Major Revenues	MFED	Min Balance	Variance
Fishing License	58,329,770	57,406,133.21	923,636.79
Import Duty	15,215,553	14,781,391	434,162
Company taxation	4,734,410	4,375,779	358,631
Hotel tax	91,708	91,435	273
Personal tax	7,300,639	6,893,240	407,399
Java Downrange & Air Service	1,391,953	1,391,949	4
Dividends	871,791	871,791	-
Interest on Con. Fund	110,638	110,638	-
Total	**88,046,462**	**84,388,203**	**3,658,259**

(Source: 2012 Management report)

3.1.3.1 Fishing License

The variance of $923,637 million found between Ministry of Finance ($58.3m) and Ministry of Fisheries ($57.4m) was due mainly to a lack of reconciliation between these two ministries. As in my previous audit report, room for improvement for such revenue account, was still required.

3.1.3.2 Import Duty

The audit noted a variance of some $434k between custom plus postal records ($14.8m) and MFED ($15.2m).

Other issues for Import Duty noted are as follows:

- Variance of $24K found between the GL and Import Entry forms.
- Amount of $232K was without Bank receipt as a deposit confirmation.
- Missing documentations amounted to $184K.
- Un-updated records for custom at Bonriki.

3.1.3.3 Taxation Revenue

Table 3c revealed a small variance for hotel tax while personal and company tax had huge variance of $407k and $359k respectively. Hence this was also due to a lack of revenue reconciliation.

3.1.3.4 Java Downrange & Air Service (Jaxa revenue)

In 2012 the Java revenue account, formerly known as NASDA fees, had only two transactions involved: one was a direct transfer from Japan Aerospace and the other was a major adjustment amounted $634,211 revenue for 2011 received in 2012. This is due to the delay of Agreement signed in 2012 by the new Minister.

3.1.3.4 Dividends

As noted in table 3c there was no variance found for Dividends revenue since the recording was controlled by the Finance. However, audit checks found that such dividend revenue was from ANZ Bank only. The audit noted that during the year no other dividends paid by listed SOEs to the government (shareholder)

An explanation by MFED on the variance of $978k (refer to table 3a above) is required.

3.2 Statement IV: Expenditure

Recommendations

Reconciliations should be performed as a priority between MFED and respective ministry divisions or companies and supporting documents should be kept safely and provided during auditing for verification of account balances.

Specific Recommendations:

- 3.2.1 Local Contribution to the Development fund should be well managed as stipulated under Schedule 2 of Cap 79 and properly recorded/or reconciled, showing previous years remaining balances.
- 3.2.2 Debt Servicing: Posting of provisions for each GoK External Loans be correctly made and not put a lump sum provision under one code.
- 3.2.3 MFED should ensure that all correspondence with ANZ regarding the opening and the closing of government bank account be copied to Auditor General for recording purposes.
- 3.2.4 Other Government Expenditure- The excess saving of over $923k was noted therefore a responsible officer at ministries should ensure that all provisions are actually utilized as originally intended.
- 3.2.5 Freight Subsidy Local Produce: MFED should ensure that the use of such approved provision be made as originally intended for.

Findings and analysis

The table below, the extract from the 2012 Annual Account prepared by the Accountant General as required under Section 39 (1)(iv) of Cap 70, summarizes government expenditure against budget for the year ending 2009 up to 2012.

At the end of 31 December 2012, it was reported that total actual expenditure had a balance of $107,319,279 right above estimated amount of $103,606,200. Overall total over budget was $3,713,079 due mainly to a number of over spent by government Ministries and Debt Servicing. (For further details on Ministry, Refer Part 1 for individual Ministries revenue & expenditure report).

Table 3.2a Ministry Expenditure 2010-12

	2010	2010	2011	2011	2012	2012	2012 (Over)/Under
Title	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate Vs Actual
Con. D-Fund	7,111,067	1,424,145	7,455,687	7,424,679	8,052,378	8,052,378	-
OB	1,040,790	1,064,690	1,024,737	1,315,423	1,028,580	1,173,889	(145,309)

PSO	648,918	647,918	631,019	598,112	594,484	594,534	(50)
Judiciary	1,455,221	1,477,883	1,409,097	1,454,680	1,565,650	1,554,034	11,616
KPS	6,755,810	7,232,178	6,773,422	7,160,239	7,030,624	6,916,415	114,209
PSC	208,424	243,044	204,546	225,515	230,629	214,455	16,174
FA	1,153,473	1,222,957	840,562	931,447	1,161,884	1,286,197	(124,313)
MISA	2,658,588	2,615,055	2,766,518	2,762,582	2,829,486	2,912,865	(83,379)
MELAD	2,754,554	2,707,646	2,675,813	2,655,750	2,519,000	2,583,528	(64,528)
Parliament	2,412,759	2,570,464	2,182,870	2,280,802	2,258,470	2,585,247	(326,777)
MCIC	1,084,542	1,188,921	1,052,812	1,070,568	1,187,389	1,174,931	12,458
KNAO	592,582	603,684	574,200	575,038	671,653	692,282	(20,629)
OAG	471,275	477,596	459,226	498,450	471,229	568,614	(97,385)
MFMRD	1,851,366	1,794,694	1,795,462	1,875,815	2,079,548	1,958,883	120,665
MHFP	14,537,255	14,311,376	14,802,718	14,309,843	14,121,242	14,053,019	68,223
MOE	16,901,716	16,920,584	17,158,020	18,294,094	18,638,444	18,963,531	(325,087)
MICT	3,473,173	3,481,664	3,340,678	3,274,321	2,652,888	2,626,603	26,285
MFEP	2,257,508	2,606,476	2,124,528	2,389,819	3,140,594	3,033,267	107,327
MWE	2,543,688	2,463,920	2,473,272	2,439,342	2,284,380	2,350,110	(65,730)
MLHRD	3,130,978	3,178,146	3,165,520	3,449,139	3,350,964	3,888,698	(537,734)
MLPID	3,349,881	3,312,874	3,278,756	3,600,521	2,678,756	3,667,198	(988,442)
Debt Service	2,283,929	9,764,545	1,425,579	4,433,029	5,165,187	7,202,573	(2,037,386)
Other Gov't Expense	13,724,109	13,887,791	17,519,572	17,194,709	19,892,742	19,266,026	626,716
Total	**92,401,606**	**95,197,414**	**95,134,613**	**100,213,917**	**103,606,201**	**107,319,277**	**(3,713,079)**

(Source: 2012 Annual Account)

Some of the key issues encountered during the audit testing are as follows:

3.2.1 Local Contribution to Development Fund (LCDF)

The Local Contribution to the Development Fund was financed from the No.1 Bank Account, following the approval of the Maneaba ni Maungatabu and as per Schedule 2 of Cap 79. The actual total expenditure of $8,052,378 as per table 4a above represented the actual bank transfer from the No1 Bank Account to No. 4 Bank Account made at the following dates: 25 April, August and 20 December 2012 of $1,763,000.00, $178,511 and $6,110,867, respectively. The transfer made in December included a supplementary, see Appendix seven, for International Air Services and SOE reform of $65,033 and $1,000,000, respectively.

During the audit it was note that the $8.05 m transferred from the No 1 Bank account was not yet used/ or spent. Rather, it was just the disclosure of funds available and ready to be used by each approved locally funded projects. In other words, it's an injection or a sum of money deposited in the No 4 bank account ready to be used by each locally funded projects. Thus the actual spending of such transfer as per page 81 of the 2012 Annual Account was therefore not disclosed in the Consolidated Fund Expenditure; hence the net over spending of $3.7m was subject for further adjustment.

However, the actual receipt of the LCDF, as detailed on page 60 of the 2012 Annual Account, was over $9.8m, untallied with the above transfer and had thus resulted in a difference of $1,732,158.33 made up of the followings:

• Observer Fund:	$1,296,649.31[1]
• International Air Services	380,443.00
• Support appropriation passport	6,010.00
• Office Development/Improvement	49,056.02
Total	1,732,158.33

As stated in paragraph 2 of s2 of Schedule 2 (see attachment): " subject to rules, 4,5,6 and 7 no warrant shall be issued under paragraph (1) unless the expenditure in question has been authorised by the Maneaba ni Maungatabu by resolution or in accordance with these Rules" .

Since the allocation of funds for bullet points: third and fourth above were not included in the 2012 Budget, meaning they were not approved by the resolution of the Maneaba ni Maungatabu, such provisions therefore contravened relevant sections of Schedule 2 of Cap 79.

3.2.1.1OBSERVER FUND: BUDGETED RECEIPTS: $1,296,649.31

The Observer Fund was neither funded from the No 1 Bank account nor included in the total withdrawal/transfer of $8.0 m from the No 1 Bank account. Obviously, the Observer fund was financed from external sources therefore it should not be part of the LCDF. The Observer Fund will be more appropriate to be treated as a Special Fund as in the case of other Special Funds like Dai Nippon Causeway toll fare, PUV and others. The exclusion of the Observer Fund from the LCDF would assist in addressing the problem of the poor reconciliation of the LCDF balance at year end.

Furthermore, the approved budget for Observer Fund was $1.9m[2] and not $1.3m as disclosed in the 2012 Annual Account.

The Accountant General should consider the more appropriate accounting treatment of the Observer Fund as the current one would keep on distorting the actual position of the Local Contribution to Development Fund account.

3.2.1.2 OBSERVER FUND EXPENDITURE: $1,434,008.04[3]

As mentioned in 3.2.1.1 para two above the Observer Fund should be allocated with $1.9 m. With the reported actual total expenditure of over $1.4 m, the Observer Fund should report a saving of over $516k. Detailed explanation on the use of the Observer Fund by those responsible should be produced for further audit verification

[1] Refer to page 59 of 2012 Annual Account
[2] Refer to page 33 of the 2012 Approved Budget
[3] Refer to page 81 of the 2012 Annual Account.

3.2.1.3 INTERNATIONAL AIR SERVICES $380,443.00.

For 2012 the approved LCDF for International Air Service was $1,765,033 while the actual allocation made was $2,145,475.00[4]. Thus the International Air Services project had been injected with another amount of over $380k outside the approval of the Maneaba ni Maungatabu or as per Schedule 2 of Cap 79.

It was noted, however, that the actual use of the provision for International Air Service project as disclosed in the Annual Account was just over $1.4 m (page 84 of 2012 Annual Account refers), reflecting the unused amount of over $710k taking into account the extra injection of $380k.

3.2.1.4 LCDF ACTUAL AUTHORISED EXPENDITURE: $13,350,170[5]

The above authorised expenditure should account for the actual expenditure for previous years and the current approved locally funded projects. However, audit checks revealed that determining actual expenditure balances for previous years and current locally funded projects was difficult to ascertain.

3.2.1.5 OVERALL COMMENT

The above differences/irregularities, together with other LCDF accounts at other ministries (Refer to Part 1), had significantly distorted the overall actual position of the Local Contribution to Development Fund account at the year ended 31 December 2012.

Furthermore, given the above, one would conclude that the existing or documented guidelines for the operation of the Development Fund, especially LCDF: Schedule 2 of Cap 79, which should mitigate such problem, had not been properly and strictly followed.

3.2.2 Debt Servicing: $7,202,573

The Debt Servicing account comprised of: EIB loan (#70372), ADB loans (#s 281, 724, 786, 922, 1039 and 648), Other Financing Commission and Interest charges account.

Highlighted in the table above actual debt servicing for 2012 had been overran significantly by over $2 million (over $5.3 m: 2011). Further, the budget provision had skyrocketed from over $1 m in 2011 to over $5 m in 2012. It was noted however that despite the increase in budget, a significant overspending was still reported.

Further, the provisions[6] for Loan repayment from ADB and EIB and Other financing commission and interest charges were disclosed erroneously as a lump sum under Interest

[4] Refer to page 60 of the 2012 Annual Account
[5] Refer to page 86 of the 2012 Annual Account
[6] Refer to 2012 Approved Budget

and Principal code: 30-01-71 of $1,581,658. This lump sum should have been allocated as provisions for EIB, ADB and Other Financing charges as follows:

EIB Loan 70372	$312,158
ADB Loan 281	71,000
ADB Loan 724	50,000
ADB Loan 786	72,000
ADB Loan 922	35,000
ADB Loan 1039	18,000
ADB Loan 1648	436,000
Other Financing	587,500
Total	1,581,658

3.2.3 OTHER FINANCING: $6,430,409

The Other Financing account was to cater for direct bank/debit charges and for Stand By Letter of Credit (SBLC) advice and contributed 89% to the total Debt Servicing expense account. The direct debits included; bank fees, overdraft fees, costs of government cheque books etc. SBLC included direct debits for repayment of charges due from government owned companies (KSSL and PUB) to overseas suppliers/companies.

It was also noted there were government bank accounts opened from previous years to account for several Government projects/undertakings such as: Business Loan, Sustainable Town Program, SOE, Kiribati Aviation Investment Projects Fund, Kiribati Information Technology account and three other unnamed bank accounts, whose transactions/payments were being charged to this account. For instance, and in particular a direct debit of over $2.3m (see GL) transferred from this account to Business loan account. Further verification of these bank accounts is necessarily required.

Thus the original and even the revised budget provision for Other Financing account were far below the actual expense of over $6.4 m net

It was further noted during the audit testing a direct transfer of $60k had been made to an invalid business loan account number: 784225. The transfer of $60k from a/c # 784255 to such business loan, a/c #: 784225 started appearing on the bank statement (for a/c # 784255) from August 2010 until 29 October 2012.

Since Other Financing account was one of the statutory expenditures the reasonable estimate could not be determined and at the same time it may not be possible to comment whether such account is being overspent or not at the end of the fiscal year. As this is prone to financial risk, it is very imperative that the Accountant General put in place effective control and monitoring measures over this bank account in order to avoid possible and substantial financial risk or loss of the public fund.

3.2.4 Other Government expenditure[7]

As per table 4a, it was noted that the approved amount for other Government expenditure, code 31 had increased significantly by $2 million in comparison to the 2011 account. However during the year a number of expenditure detailed in the table below were not fully utilised resulting in a saving of $627k.

Account	Under Budget ($)
Support Grant	81,342
SOE	249,640
Freight subsidy Local Produce	33,085
Salary KPF & Pen contribution	12,179
Land Rent	123,751
Elections	86,445
Ferry Services	20,777
Gov. Buildings Repair & Mint	42,383
Secondary Mission schools	207,280
Local Total	66,237
Total	923,119

The approved supplementary budget for Other Expenses of over $600k for 2012 was formally authorized and approved in 2013 and appeared in the 2013 Supplementary Budget.

3.2.5 FREIGHT SUBSIDY LOCAL PRODUCE: $150,000

The approved provision for the above was never used up as intended. Instead, $116,915 of the $150k approved provision was transferred to finance the Airfare subsidy. The remaining balance of $33,085 was never used up at all.

(For further comments on the above expenditures refer to individual Ministries reports Part 1)

[7] Details of Other government expenditures were noted on page 36 & 37 of Annual account 2012.

4. Statement V: Other Special Fund balances

Recommendation

MFED should clear off or not to reflect the amount of Coinage from Special fund balances

Findings and analysis

Special Funds [8] as at 31 December 2011 and 2012 have credit balances of $2.1 & $4.1 million as detailed in the table below.

Table 4a Special fund balances 2009-12

Title	2009	2010	2011	2012
Coinage	-318,983	-342,436	-351,696	-359,669
Kaoki Mange	-149,816	-105,844	-83,840	-114,185
Import Levy	-40,040	-146,290	-1,612,169	-2,952,434
Stabex	-188,649	-60,816	-60,816	-59,352
No.6 Stabex Fund	-512,506	-376,314	-411,641	1,282,905
Local Stabex Fund	3,666,937	3,623,136	3,558,539	1,393,954
Leper Trust	-6,496	-9,996	-9,996	-8,961
Dai Nippon Causeway	-2,460,926	-2,620,180	-2,517,511	-2,601,764
Escrow Account	-358,377	-66,537	-66,537	-66,537
Civil Aviation			-531,251	-527,848
Plant & Vehicle Unit				-58,949
Grand Total	**-368,858**	**-105,277**	**-2,086,918**	**-4,072,840**

The value of the Fund as at December 2012 increased significantly by $1.98 million when compared with 2011 due mainly to the increase of collection for Import levy and Dai Nippon Causeway as well as the inclusion of new special fund accounts Civil aviation and Plant & Vehicle Units. However the total value of the Fund had been distorted by the inclusion of three pro-long accounts such as Coinage, Stabex and Escrow were no longer suitable as Special fund accounts.

4.1 Coinage

As agreed by Finance and per recommended by PAC this balance should no longer exist in the 2013 account. (PAC Inquiry with Finance at 10 a.m. 17/01/14). This will be corrected in 2013 as it was not part of Special Fund

4.2 Escrow

The above two accounts were not Special Funds therefore as per agreed by PAC and Finance, they should no longer be incorporated in the 2013 account. (Same as Coinage issue).

[8] Refer Appendix 9 for carried down Special fund balances.

4.3 Kaoki Mange

This fund balance in 2012 was increased by 36% which is good, compared to a decrease of 21% the previous year. The increase relates to more receipts collected for Kaoki Mange during the year compared to payments. From a review of the account the audit noted improvement over the management of the Fund.

4.4 Dai Nippon Causeway

Collection in 2012 had increased slowly by 3% compared to a decrease of 4% the previous year. The increase of collection during the year relates to the increase in number of imported vehicles.

This operation should be thoroughly audited given the fast growing industry of imported vehicles.

4.4.1 Receipts $266,239

The audit noted that the balance of collections as per Attaché system or account did not agree to the balance of Dai Nippon receipts as per provided by the Ministry of Works amounted $275,443. This results to a variance of $9,204 meaning that such amount was not reflected in the account (Attaché system).

4.4.2 Payments $181,985.88

The above payment from the Dai Nippon Causeway toll fare fund exceeded the budget of $146,597.

4.5 Civil Aviation

The creation of the above Special fund was meant for recording the civil aviation revenues and expenditures to one allocation instead of using the Headquarter division (MCTTD).

Opening Balance	$531,250.65
Add Receipts	964,251.81
Total Receipts	1,495,502.46
Less Payments	967,654.34
Closing Balance	**$527,848.12**

As can be analyzed from the above figures total payments during the year had exceeded receipts. Since there is an opening balance been brought down therefore it results to a credit balance at the end of the year.

4.6 Plant & Vehicle Unit

A credit balance reported in the account of $58,948.57 referred to outstanding amount to be paid to PVU in settlement of permanent hire as at December 2012. No further comments since this balance has to be carried forward and paid for at the beginning of 2013.

PVU is one of the listed SOEs and is therefore subject to full auditing under CAP 95A.

4.7 Import Levy Fund (ILF)

The purpose of Import Levy Fund is to finance all goods imported into Tarawa for commercial purposes. The current levy is set at AU$ 30 per cubic meter or per 875 kg of goods imported regardless of value. The Customs Department of the MFED assesses and collects the levy to be paid by importers together with other duties and charges as part of the Bill of Entry.
Funds from the ILF were used to subsidize the costs of transporting goods, imported or locally sourced, from South Tarawa to the outer islands. Payments are made from the ILF to wholesalers as (i) reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd) from South Tarawa to islands in the Gilbert Group of all goods for commercial purposes; and (ii) reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd) of selected agricultural produce from the outer islands to South Tarawa. For islands in the Line and Phoenix Group, the subsidy is limited to the cost of freight between South Tarawa and the easternmost atoll in the Southern Gilberts (Arorae). Reimbursement is limited to freight costs and does not include land transport, loading and other wharf age charges.

4.7.1 2012 ILF Position.

During 2012, the ILF collected $3,564,027.06, including an external funding of $851,520.45 and total payment made was $2,223,762.19 resulting in a net excess receipt of $1,340,264.87. Thus total excess receipt over total payment was $2,952,433.87 (i.e. $1,340,264.87 plus brought forward balance from 2011 of $1,612,169.05).

5. Statement VI: Cash on hand and at bank

Recommendations

- That MFED should ensure that appropriate & necessary action (i.e. timely follow up) be undertaken as immediately as possible on deposits not yet cleared to date and due from past years, especially 2010 & 2011. This is to avoid the accumulation of such balance in future accounts.
- Bank reconciliations should be implemented as a priority for each individual bank account & supporting documentations should be provided during the audit for verification purposes
- MFED should make correction to the cash balance disclosed in the bank reconciliation report to $5,429,306.60 as per bank statement as at 31/12/2012, instead of $5,430.028.60, incurring a difference of $722
- Movement register should be properly maintained at all times to minimize & avoid missing source documents for future management and audit purposes. This is the same issue reported in past year audit comments.
- (5.4.) an adjusting entry should be made in regard to a variance found for Cash local account.

Findings and analysis

The Cash on hand and at Bank balance as at 31 December 2012 was $15.1 million. This was a big contrast when compared to negative balance of $5.49 m in 2011.

Bank reconciliations have been completed since 2009 up to 2012 however we still could not place reliance on these figures since there were still deficiencies and anomalies in the accounting records and systems.

Table 5a Cash on hand and at bank 2011 & 2012

	2010	2011	2012	12 Inc/(Dec)	11 Inc /(Dec)
BANK OF KIRIBATI					
Betio PO Reimburse clearing	-				
NO 1 A/C	(3,206,853.94)	(15,150,230.4)	2,903,294.08	18,053,524.48	(11,943,376.46)
IBDs with BOK Ltd	-	-			-
Kiribati Charter Operations	(1,673.43)	(1,673.43)	-1,673.43	0	No change
Kiribati High Com Bank a/c	284,668.63	640,480.73	1,012,000.01	371,519.28	355,812.10
KPF Clearing Account	-	-	-109,250.37	(109250.37)	-

Met Office A/C 819328	20,075.00	20,075.00	20,075.00	0	No change
No. 4 Account	3,224,096.74	4,968,213.52	8,032,431.17	3,064,217.65	1,744,116.78
No. 5 Account (Kiritimati)	4,093,828.96	3,569,689.96	2,518,131.73	(1,051,558.23)	(524,139.00)
No. 6 Account (Stabex)	4,938.91	40,039.68	288,477.00	248,437.32	35,100.77
Xmas No.5 Account	-	-			-
	4,419,080.87	**(5,913,404.94)**	**14,663,485.19**	**20,576,890.13**	**(10,332,485.81)**
OTHER					
Sub-Accountants	250.00	4,250.00	4,250.00	0	4,000.00
Cash - Local Gov	71,635.92	378,301.31	364,433.78	(13,867.53)	306,665.39
Agents	36,970.56	36,970.56	36,970.56	0	No change
	108,856.48	**419,5211.87**	**405,654.34**	**(13,867.53**	**4,086,355.39**
TOTAL per Balance Sheet	**4,527,937.35**	**(5,493,883.07)**	**15,069,139.53**	**20,563,022.60**	**(10,021,820.42)**

(Source: Extract from 2012 Annual Account)

5.1. Government of Kiribati No. 1 account

As per balance above, the 2012 Annual Account reported a credit balance of over $2.9 m as opposed to an overdraft of over $15m in 2011. This year marks for the first time an outstanding achievement in eliminating the Bank Overdraft and its associated charges and therefore all contributors to this achievement should be commented.

As noted in Table 3a above, total revenue collected was $128,839,152 (2010: $95m & 2011: $81 million) of which revenue from fishing license contributed 45% and 29% from the RERF drawdown during the year and thus had contributed to the sound financial position of the government bank account during the year and same will be realized in the beginning of 2013.

Despite the above notable improvement the audit noted with concern the following issues which appeared in the bank reconciliation statement 2012 prepared by MFED:

i. The preparation of Bank Reconciliation statement is well performed unlike prior years although the timely of reconciliation is still on an annual basis.

ii. The audit concerned over the total outstanding deposit of $347,763.84 in which $283,096.20 or 81 % was the total outstanding for the month of January 2012. In other words, such deposits were outstanding for 12 months plus the date of reporting: 24/06/13, 18 months.

iii. Further, the audit also concerned that some related source documents for some selected key items were not submitted for audit verifications. For instance total outstanding deposits of $335,516.52 which need to be audited but somehow were not available during the audit and therefore we could not go further in testing such balance,

iv. The KPF Clearing account balance of negative $109,250.37 should not form part of the Cash on hand and at Bank. It should have been adjusted before the balance sheet date.

5.2. No.4 account

The reconciliation process had been performed on a monthly basis however the following issues were noted:

i. There was an outstanding withdrawal stated in the Bank Reconciliation Statement for January to December total up to $457,962.05. This amount was not yet appeared in the bank statement so we cannot verify and hence there was no explanation obtained from MFED.

ii. Again the 2012 GL consist of the PPI amount of $20,794,390.54 and this amount has no break down to support the balance.

5.3 NO. 5 BANK ACCOUNT

Since the bank reconciliation statement for the No.5 bank account was not made available, and that the variance between General Ledger and ANZ Bank Audit Certificate was $2,399,302 the verification of the general ledger credit bank balance of $2,518,131.73 could not be made.

5.4. No. 6 Bank account

The No.6 account also known as the Stabex account for copra fund. The audit noted that the bank balance at year-end 31 December 2012 of $288,477.00 (2011: $40,039.68) per recorded on GL agrees to bank audit certificate hence this is an indication of improvement in the reconciliation process for stabex fund. However there are control weaknesses which have been discussed earlier for Stabex account. *(Refer Section 4 Stabex fund under Other Special fund)*

5.5 OTHER ANZ BANK CREDIT FACILITIES

As reflected in the 2012 annual account there was no Government bank overdraft with ANZ bank and still continued using ANZ credit facilities namely: Stand By Letter of Credit and Visa Business Card facilities with their limits of $806k and $280k, respectively.

5.5.1 Stand By Letter of Credit (SBLC)

The SBLC had been used to meet government expenses for SOEs outstanding invoices from their overseas suppliers, and other Government projects. (see comment para 4.2.1 above)

5.5.2 Visa Business Card

This credit facility was currently being used by almost all Secretaries when on official overseas trips. Conditions for the use of this credit card by Secretaries and transactions have not been made available for audit verification as required under section 30 (3) (a) to (c) of Cap 79.

6. Statement VII: Advances from the Consolidated Fund

Recommendations

6.1.1. Advance

- MFED should assign someone to review salary and personal advance account prior finalizing and reporting in the Annual Account,
- MFED should assign someone to review salary and personal advance account prior finalizing to charge and employee or treasurer's advance account
- MFED should strictly monitor the recovery of personal advances against other treasurers.
- *MFED should impose stringent measures against fraudulent treasurers and ensure losses of funds are recovered*
- MFED should prepare an Aging Analysis Summary for Salary and Personal advance in order to be able to determine and separately disclose the current and prior years' balance
- MFED should exert efforts in minimizing the level of salary advance and hasten recovery action

6.2. Imprest Travel

<u>2010 Recommendations:</u>

- MFED has to come up with a balance for deceased and retired cases and to begin writing off them as these balances could not be recovered.
- MFED should review imprest and to ensure that only one imprest account per employee or imprest holder
- MFED should have a data by type of funding as locally funded trips, unless incidentals are included, will have per diems automatically cleared once trip was completed with incidentals still outstanding unless reconciliation by claimant for clearance had been made
- Funded trips will have to be identified so incidentals could only be granted and retired upon return

6.3 Others (J0044)*

- MFED should provide list of adjustments for those corrections made in regard to the above account (To be adjusted in 2013)

6.4 Returned cheques

- MFED should provide reconciliation and supporting documents for the offset payments for bounced Cheques.

Findings and Analysis

Advance account comprises of the followings sub accounts:

Table 7a Advance account 2008-12

Title	2010	2011	2012	Inc/(Dec) 12	Inc/(Dec)'11'
Other Government	7,066.00	7,066.00	7,066	0	-
Public Officers	10,067,025.25	11,104,425.08	11,780,926.43	676,501.35	1,037,399.83
Miscellaneous	1,720,726.56	-627,495.86	-507,207.17	120,288.68	-2,348,222.42
Total	**11,794,817.81**	**10,483,995.22**	**11,280,785.26**	**796,790.04**	**-1,310,822.59**

(Source: Extract 2011 & 2012 Annual Account)

The level of advances had increased by a net of over $796k in 2012. This relates predominantly to a significant increase of Public Officers account from $11.1 million in 2011 to $11.8 m in 2012. As detailed and recommended in my prior audit reports Other Government should be written off.

6.1. Public Officers

Table 6b Public officers 2008-12

Title	2009	2010	2011	2012	Inc/(Dec)'12	Inc/(Dec)'11'
Advances	2,948,848.44	4,968,959.44	6,044,206.07	6,418,825.93	374,619.86	1,075,246.63
Imprests	2,728,187.19	2,410,601.98	2,370,386.08	2,671,520.81	301,134.73	-40,215.90
Stabex Imprest	4,807,955.85	4,807,955.85	4,807,955.85	4,807,955.85	00	0.00
Standing Imprest	19,633.43	19,633.43	21,329.03	22,129.03	800	1,695.60
Other (J0044*)	-18,934,461.45	-2,140,125.45	-2,139,451.95	-2,139,505.19	53.24	673.50
Total	**-8,429,836.54**	**10,067,025.25**	**11,104,425.08**	**11,780,926.43**	**676,501.35**	**1,037,399.83**

(Source: Extract 2012 Annual Account)

6.1.1 Advances $6,418,825.93

The Advance account balance was up by over $374k when compared with last year. This advance account comprised of Salary and Personal advances amounted to $3,539,704.19 (net) and $2,879,121.75, respectively. This is an asset of Government which impacts on the cash flow and therefore recovery on actual recoverable advances should commence with immediate effect.

i) Salary Advance

Audit testing on Salary advance revealed that almost all balances for employees were not realistic at all. Included in the Salary advance balance were negative figures, meaning these employees should be reimbursed with such credit balances. Also some of the names listed already left the civil service or no longer civil servants since more than a decade ago.

The aging analysis was not available which could have shown how long some of the names had been on record.

ii) Personal Advance

The issues for personal advance were noted identical with last year as follows:

- It was noted that no one checked or reviewed the accuracy of surcharges although the officer in charge was the only personnel to just simply charge treasurers advance account whenever there is an issue with returns.
- The audit also confirmed that there is no notification letter sent to these employees making them unaware of such surcharges under their account. Without a notification regarding these charges would cause disagreement between the two parties.
- Personal advances for Island Treasurers were so substantial that it would not be possible to recover from them. For instances, one Island Treasurer had accumulated personal advance of over $600k.
- The increase for Personal Advance of over $319k when compared with last year's balance of $2,559,207.68 included prior year's negative balances written off during 2012 of $48,183.29[9].
- Aging analysis summary was noted unavailable to show the current and past personal advance amount.

In view of the above shortcomings, the disclosed Advance account balance in the 2012 Annual Account of over $6.4 m needs to be corrected.

6.2 IMPREST TRAVEL: $2,671,520.81

The balance of Imprest-travel was over $2.6 m in 2012. It is of paramount importance to identify from the above the actual Imprests deemed outstanding for locally funded travels as these should automatically cleared when travel was accomplished and only incidentals or Imprests for some for externally funded travels, if had not been retired, would remain in the accounts as Imprests owed to Government.

The audit confirmed that the same issues for previous years were still made as follows:

- Imprest division still unable to determine the actual balance for deceased and retired people of which could not be recovered.
- Imprest division still has not distinguished the locally funded and funded trips as well as incidentals involved from the above outstanding Imprest
- The audit found out that there were some imprest holders with more than one account and noted increasing when compared to last year.

6.2.1 ***Stabex Imprest (L300A*): $4,807,955.85 (2012)***

Nothing has changed since my last audit report. The transactions amount of which appeared since 2009 should be charged to Local Stabex Fund.

Clarification is required on other Stabex funds appearing herein under the following Sections:

[9] Refer to working paper: 2012 adv gl list T2-1.xlsx (Iokey)

Other Special Funds – s V	Stabex in 2011 – ($60,816) and 2012 – ($59,352)
	No. 6 Stabex fund in 2011 ($411,641) and 2012 $1,282,905
	Local Stabex fund in 2011 $3,558,539 and 2012 $1,393,954
Investment – section XI	CBA Stabex with NIL amounts since 2010

6.3 Others (J0044*): -$2,139,505.19 (net) (2011:-$2,139,451.95)

A negative balance for this account was slightly increased by $-53.24 in 2012. The Audit testing, however, revealed that the above negative balance was comprised of the followings:

Banaba RCL Payment	$43,067.79
Unaccounted DR & CR & Diff	-$2,966,428.30
No.6 Unaccounted for Dr. & Cr.& Diff.	-$207,430.09
No.4 Unaccounted Dr. Cr. & Diff	$991,285.41
Total	**-$2,139,505.19**

6.3 **Advances Miscellaneous**

The three accounts CFTC, Crane South and Naruai should be written off as recommended by PAC and yet still appear in the 2011 account.

Table 7c Advances Miscellaneous

Title	2009	2010	2011	2012	Inc/(Dec) 12	Inc/(Dec)'11'
CFTC Advance	1,366.00	1,366.00	1,366.00	1,366.00		N/Change
Crane South	2,407.83	2,407.83	2,407.83	2,407.83		N/change
Naruai A.	196.15	196.15	196.15	196.15		N/Change
Ret. Cheques	1,820,917.81	1,716,756.58	-631,465.84	-511,177.15	-116,318.71	-2,348,222.42
Total	**1,824,887.79**	**1,720,726.56**	**-627,495.86**	**-507,207.17**	**-116,318.71**	**-2,348,222.42**

(Source: Extract from 2010, 2011 & 2012 Annual Account)

6.4 Bounced Cheques -$511,177.15 (2011:-$631,465.84)

The Returned cheque account had a reduced negative balance of $511,177.17 compared to a negative of $631,465.84 last year. A negative balance as shown above simply indicated that there was excessive repayments of bounce cheques meaning that those companies or individuals concerned have paid more than what they should pay to offset their bounce cheque during the year. This is certainly could not be the case. In fact the GL balance of $524,837.53 was not tallied with the above balance and differed by $13,660.38. Obviously, the Returned Cheques account had not been properly reconciled and should be written off if it continues reporting a negative figure.

7 Statement VIII: Advances from Deposits

No Advances were made from Deposits in 2012.

8 Statement IX: Deposits accounts

Recommendations

Overall immediate attention must be given in improving and strengthening the discipline of reconciliations and review process and procedures. The Accountant General must ensure that these review of process and procedures are undertaken.

- (8.1) Huge un-reconciled balances being included in the Sundry deposit account should be reviewed and adjusted accordingly.
- (8.2) Bank arrangement on the outer islands should be revised between government and the bank in order to outline related policies that should be consistently used by outer island treasurers
- (8.3) Telmo balances needs to be reconciled and cleared off otherwise they will accumulate to a point where MFED will no longer be able to substantiate them

Findings and Analysis

Section 24 of the Public Finance (Control and Audit) Act allows that moneys, not raised or received for the purpose of government may be deposited with the Accountant General (or any officer authorized by him). Additionally under section 27 any deposit which is unclaimed for 5 years apart from DNE shall be paid back into the Consolidated Fund for public purposes of the Government. Those deposits are detailed in the table below.

Table 9a Deposits account 2009-2012

Title	2009	2010	2011	2012	Inc/(Dec)'12	Inc/(Dec)'11'
Deceased Native Estate	-905,600	-1,134,597.63	-1,046,476.59	-1,128,790.64	82,314.05	-88,121.04
Public Officer	87,460	86,955.97	-33,699.54	-24,856.54	-8,843	120,655.51
Sundry	-3,254,310	8,962,031.58	7,784,943.95	7,346,993.27	-437,950.68	1,177,087.63
Telmos	1,529,010	-4,279,480.88	-5,610,864.23	-5,154,460.72	-456,403.51	1,331,383.35
Total	**-2,543,440**	**3,634,909.04**	**1,093,903.59**	**1.038,885.37**	**-820,883.14**	**2,541,005.45**

(Source: Annual Accounts: 2009, 2010, 2011 and 2012)

At the end of 2012 the Accounts had a net balance of $1.04 million which included huge un-reconciled balances such as Deceased Native Estate accounts, Sundry deposit and Telmos.

8.1Sundry Deposits: $7.35m (net)

The above amount of $7.35 m net was comprised of various accounts[10] including Bank Agency Arrangement Account discussed in para. 8.2 below.

[10] Refer to appendix six of this report.

In fact, these various accounts under the Sundry Deposit account should have zero balances if correctly posted and accounted for at the end of fiscal year.

Sundry deposits should have a negative balance as this is government liability therefore the reported amount in 2012 was down by $437,950.68 when compared with an increase of $1.2 million in 2011 account. A balance of $7.3 million (net) during the year stands for an amount owed by sundry deposit therefore should be paid to the government. However this is not realistic since such deposits had never been reconciled. Like the 2011 Annual Account, the un-reconciled huge positive amount **$20.8 million and negative figure of $13.8 m for the No.4 and No.1 were still included in the above 2012 Sundry Deposit balance.**

Following is one major sub-account for sundry deposit:

8.2 Bank Agency Arrangement: $2,757,814,.31 (2011: $2,885,652.99)

This account should be credit in nature thus a reported balance of positive $2.8 million in 2012 showed an amount to be paid by the ANZ bank to the government. Such amount owed by ANZ had decreased by 4.43% in comparison to 2011 account of $2,885,652.99. In any case where this balance is correct MFED should have followed up with the Bank to settle such amounts. However due to lack of reconciliation between MFED and ANZ bank the audit could not place any reliance on the balance disclosed in the account. (Same issues noted in the 2010 and 2011 findings)

8.3 Telmos -$5,154,460.72(net) (2011:-$5,610,864.23 net)

The above net balance of the Telmos Account was comprised of the followings:

Internal (P0051 * I0051)	-$39,929,351.82
Internal (P0053*I0053)	46,191,535.94
Internal (telmo salary)	-11,416,573.25
Nauru	97,100.78
Fiji	-3,638.11
Australia	-615.54
Tuvalu	-95,678.72
Through others	-240.00
Total	-$5,154,460.72

In comparison to last year the same poor control weaknesses for Telmo account was still encountered in 2012. The disclosed balance in 2012 had decreased by over $456k, but was not realistic given a number of issues found in the system as follows:

- Poor control over the use of Paid Telmo (PF27)
- Omission of $13,113.41 from the GL
- Net balance of $6.2m, derived from netting off Internal (P0051*I0051) balance of over $39m with Internal (P0053*I0053) of over $46m, will be the amount of money Government should pay to the public concerned at the end of 2012.
- Due to the unavailability of supporting document, the $39 m could not be verified.

9 Statement X: Contingent Liabilities

Recommendations

MFED needs to include a balance of contingent liability for BPA amounting to $117,000 as per advice notification by ANZ bank to correctly state SBLC of $890k and not $806k

Findings and Analysis

Contingent liabilities have no effect on the consolidated Annual account or balance sheet however it is part of the requirement under CAP 79 part VI section 39 (i) to disclose such information.

9.1 Bank of Kiribati

The Bank of Kiribati was approached to confirm balances. These balances vary considerably to those reflected in the 2012 annual accounts.

Table 10a Contingent liabilities summary Dec 2012

		ANZ Bank info @ 31 Dec 2012		
	2012 accounts	Overdraft limit	Utilized amount on OD	Term Loan balance
Kiribati Gov't				8,815,472.
BKL	2,100,000	2,100,000		
KCM	368,000			
CPPL	300,000	300,000	-297,691.97	Nil
TSKL	6,747,000	2,900,00		
KCSL	450,000	450,000		
KOIL	9,000,000	2,000,000		
KSSL	5,200,000			
PUB	2,939,000			
SBLC		890,000		
Visa Card		280,000		
Total	**$28,503,265**			

(Source: 2012 Annual account & Bank Audit Certificate)

The Government contingent liabilities provided by the ANZ bank through the Bank Audit certificate included only five SOEs (BKL, CPPL, TSKL, KCSL and KOIL), Stand By Letter of Credit, Visa card and Term Loan.

9.2 GOK TERM LOAN: $8,315,472

The above Term Loan as per Bank Audit Certificate 31 December 2012, was not accounted for or being omitted from 2012 Annual Account.

9.3 VALUE OF TOTAL GOVERNMENT CONTINGENT LIABILITIES

The disclosure of the contingent liabilities in the Annual Account was one of the requirements under s39 (i)(x) of the Public Finance (Control and Audit) Act 1981.

It should be commented that the value of the government contingent liabilities was significantly down by 57 % when compared to 2011 and 2010. The bulk of such a decrease was related to the significant fall in the value of Bank Guarantee for SOEs from $29 m in 2011 to $8m during the year under review. Therefore SOEs should be commended for the notable improvement in their financial performance.

10 Statement XI: Investments

Recommendations

- MFED is required to give an appropriate explanation over the change in values of other investments.
- MFED has to ensure that a monthly reconciliation is performed for other investments and to maintain an investment register for control purposes.

Findings and Analysis

The Statement details two investments: RERF valued at $613,875,383[11] and other Investments totaling $2,339,118.77

10.1 Other Investments: $2.3 million

Table 10a Movement of Other investments between 2011 & 2012

Other Investments	2012	2011	Movement 2012
Rothschild &Sons Investment	179,951.96	174,884.44	5,067.52
Investment with CBA-Coinage	231,444.67	223,471.64	7,973.03
CBA Investment-Con Fund	564,930.81	546,418.17	18,512.64
Escrow Land Purchase- Fiji	**930,180.00**	**00**	**930,180.00**
Total Active Investments	**1,906,507.44**	**944,774.25**	**961,733.19**
World Bank	18,336.12	18,336.12	00
Investment with CBA-Stabex	00	0.00	0
International Development Asso	11,693.05	11,693.05	00
IMF N0.2	292,186.5	292,186.50	00
IFC Subscription	11,308.5	11,308.50	00
Esrow Investment	66,536.76	66,536.76	00
Aud A/c 56-0449. 10th Annivers	8,731.00	8,731.00	00

[11] RERF would be discussed in detail at Section

AUd A/c 55-1999 5th Anniversary	23,819.40	23,819.40	00
Total Inactive Investments	**432,611.33**	**432,611.33**	**00**
Total	**2,339,118.77**	**1,377,385.58**	**961,733.19**

(Source: 2012 Annual Account)

Overall the above table shows the movement of other investments as at December 2012. The total value was up significantly by $961,733.19 (declined in 2011 by $182,651.47). The significant increase stemmed from the new investment in Fiji of over $930k.

In addition a number of investment accounts were never changed in values for more than three years meaning that no interest gains generated from these investments. Further the Other Investment account balance had been overstated by the balance of the Escrow Investment of $66,536.76 as such investment was no longer existed. The audit concerned whether these investments exist or not, nor the government has the right of ownership.

Note: The increase in investment relates to interest gains while the decrease refers to withdrawal, bank charges or others made during the year.

After reviewing the system in place for other investment the audit noted that there was no monthly reconciliation and the investment register had not been maintained by the responsible officer to record all the details and movements of investments.

11 Statement XII: Loans from the Consolidated Fund & others

Recommendations:

2008 Recommendation- It is recommended that all overdue loans from the Consolidated and Development Fund be written off or converted to Grants.

With the ADB loans the GOK may seek renegotiation of the terms and conditions, for either cancellation or conversion of the debt into a grant with the ADB.

Findings & Analysis

11.1 Overall Total Outstanding Loan: $7 million

Section 39(1) (XII) of the Public Finance (Control & Audit) Act stipulates that the statement of outstanding loans is to be submitted together with the annual accounts. The statement below provided a summary of outstanding loan as at the end of 2012.

Table 11a Loan financed from the Consolidated and Development Fund

Borrower	Financed From	Year	Principal	Outstanding	Recommendation
DBK	Cons Fund	1962	100,000	10,000	Converted to grants
DBK	Cons Fund	1977	20,000	20,000	Converted to grants
KCWS	Cons Fund	1977	1,000,000	794,653	Write off
Air Tungaru	Develop Fund	1980/81	199,900	480,700	Write off

Corporation					
DBK	Develop Fund	1971	64,000	64,000	Converted to grants
Te Mautari Ltd	Develop Fund	1981	250,000	250,000	Write off
Housing Corporation	Develop Fund	1983	100,000	100,000	Write off
KCWS	Stabex Fund	1986	500,000	415,000	Write off
PUB	ADB	1988	2,279,470	2,860,797	Inactive
Betio Shipyard Ltd	ADB		894,962	894,962	Inactive
DBK	ADB	1990	1,059,252	1,180,071	Inactive
			6,467,585	**7,070,185**	

(Source: 2012 Annual Account)

The corresponding repayments on the loans have been neglected for some time[12] and as the total outstanding amount is substantial these should be cleared in the manner as noted above.

12 Statement XIII: Public Debts

Recommendations

2008 Recommendation- the GOK should formally write to ADB and seek clarification in relation to this debt. If there is an expectation that the debt is still payable the terms and conditions of the loan should be renegotiated. If not then the GOK should seek for cancellation or conversion of the debt into a grant.

MFED should review the position of Public debts balance so as to be able to give a more reliable balance.

Findings & Analysis

As reported in 2012 Public debts were still inactive however in comparison the total outstanding of $13,463,778.88 in 2011 (which was incorrectly disclosed) was significantly decreased by 18% or down to $11,654,601.16 in 2012.

It should be noted however, that the balance for Public Debts had been incorrectly disclosed in the 2012 Annual Account as $22m and need to be adjusted to $11,654,601.16.

Furthermore audit testing noted that amount repaid of $800k[13] for PUB and KSSL was not tallied with total payment of $1.1m (see Appendix eight) disclosed in the GL for Other Financing in respect of PUB and KSSL.

12.1 Public Debt as at 31st December 2012

Due to anomalies referred to above, the Public Debt balance as the Annual Account or when adjusted to $11,018,659.79 was still subject for further adjustment.

[12] Most of loans are long outstanding for more than 20 years.
[13] Refer to page 49 of the 2012 Annual Account last row under column: Amount repaid AUD

13 Statement XIV: Arrears of Revenue

Recommendations

MFED should as quickly as possible fix the problem with attaché system in regard for arrears of revenues and to ensure that those unaccounted arrears of revenues are correctly reported in 2013.

Findings & Analysis

The Arrears of Revenue is part of the statutory reporting requirement specified under section 40 of Cap 79, but does not form part of the Annual Account. The annual balance for the arrears of revenue is summarized below:

Table 13a Arrears of revenue for years 1972-2012

Year	Balance	Year	Balance
1972 - 1998	8,677,026	2005	2,880
1999	541,622	2006	2,880
2000	699,245	2007	2,880
2001	547,876	2008	4080
2002	10,749	2009	496,506.54
2003	352,385	2010	13,715.00
2004	265,133	2012	908,910.00
		Grand Total	**11,094,039.22**

(Source: 2012 Annual Account)

Arrears of revenue for years 2005 up to 2010 were not reported in the account. However, a new balance of over $908k and the grand total of over $10m reported in 2012 seemed to fall below previous years' total accumulated balance of over $11m. More effort in improving the record for the Arrears of revenue is still required.

14 Statement XV: Unallocated Stores & Manufacturing

Recommendations

2010 Recommendation: Officers responsible for the losses and not found guilty by the court should be disciplined as suggested by FR 324 (1) (d). The most appropriate punishment should be considered is either dismissal or demotion and must be removed from duties involving handling of cash.

Findings & Analysis

The Unallocated Stores of Manufacturing accounts are also parts of the statutory reporting requirement under section 40 of Cap 79, but they do not form part of the Annual Account. However, this section has been used to detail losses of public funds and stores as appended below:

14.1 Total amount of Losses $441,210.90

The value of losses of Public Funds as at 31 December 2012 was $441,210.90 with some of these dating back to 1987. Many of these cases remain outstanding either awaiting outcome of investigation or of court decision. There is invariably a substantial delay in dealing with these cases and in most cases, employees are laid off on half pay until their case is finalized which may take a year or longer. This exercise is quite costly to Government especially in cases where the employee is proven guilty. Disciplinary matters should be reviewed and actions on cases involving losses of public funds and stores should be expedited.

14.2 Age Analysis of Losses of Funds and Stores

Refer Appendix 2, Losses of Public funds 1994 to 2012.

15 Statement XVI: Development Fund

Recommendations:

MFED should perform Reconciliation as a priority for government projects and to ensure that funds are utilized in accordance with schedule 2 of Cap 79 (copy annexed to the report) and correctly disclosed in the annual account.

Findings & Analysis

15.1 Establishment and Purpose of the Fund

The Development Fund is a special fund as defined by section 107(2) and (3) of the Constitution and is used to finance development projects from donors'. The Fund consists of cash and `in - kind` aid provided by various external aid donor countries and aid agencies.

15.2 Overall Position of the Fund

As in the case last year, the value of the Development Fund as at 31 December 2012 disclosed in Statement XVI of $15,016,044.24 was incorrect. This was due to irregularities mentioned in para 4.1 above, para 16.4 below and even the balance as per Statement VI of over $8.0 m was not reconciled with nor includes amounts paid or received directly to individual Ministries. In kind aid is also not included contrary to contemporary accounting practices.

15.3 Bank Reconciliation

As in previous years the account could not be verified due to the absence of a proper bank reconciliation statement.

15.4 Development Fund: Overseas donors

In analysing only three of the overseas funded projects, it was noted that they shared one common error, omission of warranted amount as follows:

i) Capital Maintenance for KHC

This was a Taiwanese funded project. The total amount warranted in 2012 for this project was $832,000. It was noted however, that $525k was receipted as disclosed in the 2012 Annual Account (refer to page 61). Thus the amount of $306,621 was omitted.

ii) Kiribati Road Rehabilitation project

This was a project funded by ADB with the total amount warranted of $277,778. Only $218,138.48 was disclosed as a receipt in the 2012 Annual account, meaning the remaining balance of $59,639.52 was omitted.

iii) Small Grant

This was another one of Taiwan projects with a total warranted amount for 2012 of $982,538. Again only $500k was accounted for as a receipt in 2012 Annual Account while the other $500k warranted in December 2012 had been omitted.

iv) Revolving Fund

Additionally, included in the Revolving Fund was an account named: Unallocated Credits amounted to $1.1m (2011: $4.2m). This development account is a clearing account and it should have a zero balance. This has therefore incorrectly overstated the total receipt of the Development Fund balance.

We had not examined the remaining 85 % of the total Development Projects which is highly likely to add more to the total omitted amount above of $866,260. Thus one could conclude without doubt that the total Revenue of the Development Fund as per page 56 of the 2012 Annual Account was not a realistic amount. In other words, the total revenue of $26,851,796.68 was not reliable.

As in my last report, the overall position or balance of the Development Fund for 2012 was incorrect.

16 Statement XVII: Suspense account

Recommendation

MFED should post any unallocated or unidentified revenues and expenses under suspense account to await corrections or adjustment instead of posting them directly to Sundry deposits causing the balance to be incorrect.

Findings & Analysis

There were a number of Suspense Accounts still appearing in 2012, but had been posted to Sundry Deposit accounts. For instance, the No.1 and No. 4 PPI un-reconciled bank balances of-***$13, 795,670.93 and $20,794,390.54, respectively, and No.1 unidentified credit of -$3,835,160.04.***

The No.1 and No. 4 PPI un-reconciled amount remained the same since 2010. Regarding the No.1 unidentified credit, this had increased from -$3,392,961.67 in 2011.

It should be noted that t**hese amounts had been wrongly posted to Sundry Deposit, when they should be posted to Suspense account.**

17 Statement XIX: Cash in Transit

Recommendations

- MFED should perform regular cash in transit reconciliation in order to detect and clear any discrepancies as soon as possible
- The RBC omitted from the GL 2012 and be included in 2013
-
- MFED needs to establish a standard Register as required in the FR section 249 (1), chapter 12.

Findings and Analysis

The account represents the internal movement of cash between MFED and the designated sub-accountants, local government and other agents on outer islands. In principle, the balance of this account at the end of the financial year should be nil, as codes debited by the paying station will also be credited by the receiving station. However, in practice a balance will exist due to the time factor from when the money was paid in and the time it was paid out. At the end of year 2012 Cash in Transit had been increased by $67,368 with a net balance of $ $643,130.35 compared to 2011 figure of $575,762.35. After a review of the account the audit noted the following:

i. RBC Inward and Outwards Register were not well maintained in accordance with the standard format of the Register stated in the FR section 249 (1), chapter 12
ii. RBC for Beru valued at $8,400 was omitted from the GL
iii. The reconciliation was done, not on a regular or quarterly basis during the year, but at end of the fiscal year when all returns from outer islands were received.

18 Statement XX: RERF

18.1 Overview[14]

The economic importance of the Revenue Equalization Reserve Fund (RERF) to the people of Kiribati cannot be over-emphasized. It constitutes the largest single asset of Kiribati and the only means for future generations to be able to deal with an abrupt withdrawal of financial assistance from aid-giving countries. The RERF is therefore, a balancing factor in the economic development of Kiribati. The way in which the RERF ought to be managed is, needless to say, of paramount importance, not only to the policy makers but to every I-Kiribati as well.

18.2 Background

The fund was established in 1956 and capitalized using phosphate mining royalties. Under a conservative policy, the fund's asset grew steadily until 1979 when phosphate deposits were exhausted. Until recently, conservative policies have protected the RERF. Since independence Governments have generally been reluctant to draw on the RERF, preferring to accumulate funds against an uncertain future.

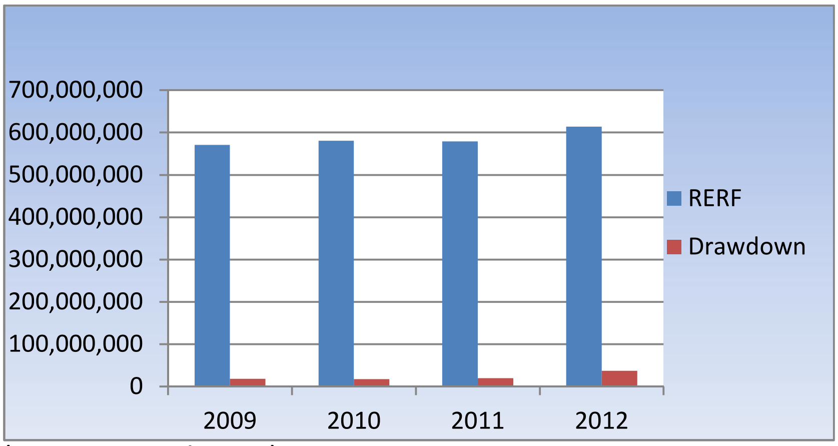
For the past five years 2007 to 2012 the overall drawdowns from the RERF is $162.5 million, and the funding of persistent budget deficits brings into sharper focus the question of the sustainable level of drawdown from the RERF. Furthermore the opportunity cost of using RERF funds now is future investment income foregone.

18.3 Legal Status:

The legal status of the fund is that of a Special Fund under the Public Finance (Control and Audit) Act, with rules for operating the fund made by the Minister subject to parliamentary approval.

18.4 RERF Analysis

Fig. 19



(Source: 2012 Annual Account)

[14] Atoll Politics: *The Republic of Kiribati Google books*- Chapter 14, Mr. Teuea Toatu

The above bar chart (Fig. 19a) shows the trend of market value and drawdown of the RERF for the past three years. The market value of the RERF as at 31 December 2012 was over $613 million.

18.4.1. Value of the Fund

As clearly indicated the value of the RERF for 2007 was some $637.34 million which was the highest value compared to other years. The value of RERF slightly decreased by 12% percent in 2008 and gradually increased by only 2% in 2009 and 2010, decreased by some $1.98 million in 2011 and increased by 6 % in 2012.

18.4.2. Drawdown

The movement of withdrawals throughout the years clearly shows that 2007 has the highest amount of withdrawal of $45 million. However drawdown from the RERF slowly decreased in subsequent years 2008 ($25m) to 2011 ($19.7m): *2009 ($18m) 2010 ($17.3m)*

The approved sum for drawdown was $22.5 million and the total draw down from the RERF during the year was $37.5 million. The $15 m excess over the approved amount was to cater for the bank overdraft with ANZ.

18.4.3. Total income

The income for the year 2012 achieved by HSBC was $10.4 m ($9.33: 2011) while NICAM had $18.7 m (2011: $11.18) thus amounted to Au $29.9 m (2011: $ 20.51 million).

18.4.4. Overall return

The overall return of the fund for the year 2012 was 6.0 % compared with -3.% for 2011, meaning the improvement in performance of the fund was significantly noted during the year.

18.4.5. MANAGEMENT FEES

The expenses for the RERF were comprised of fees such as: management fees, custodian fees, other fees and tax expenses. The total expense for 2012 was $1.47 m shared amongst the two fund managers: HSBC and NICAM of $1.03 m and $438k, respectively.

Also included, as part of the expense, was the Tax expense. Since the RERF is the Government Fund, the explanation as to why RERF Custodian charged tax and, if not for the revenue, for which such tax had been deducted, is thus required.

18.4.6 GOK AGREEMENT WITH RERF FUND MANAGERS AND CUSTODIAN

The agreement between the GOK and the RERF Fund Managers/ or Custodian was last signed more than 10 years back. One of the clauses of the agreement mentioned the appointment of the Auditor specialized in auditing such fund. As of to date, no Auditor had been appointed nor independent audit report on RERF carried out.

19. STATUS OF MATTERS RAISED IN PREVIOUS MANAGEMENT REPORTS

Appendix one outlines the matters that have been discussed in previous Annual report issued to you. Table A1.1 identifies the matters that have been resolved during the year. Table A1.2 details matters that remain outstanding.

20. STATEMENT OF AUDITOR INDEPENDENCE

20.1 Independence

We confirm that, for the audit of Government of Kiribati Annual account for the year ended 31st December 2012 we have maintained our independence in accordance with the provisions of the CAP 79.

In addition, we have no relationships with, or interests in, the GOK Annual account (MFED).

20.2 Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

21. APPENDIX ONE: STATUS OF PRIOR MANAGEMENT LETTER ITEMS

Table A1.1: Matters cleared

NIL

Table A1.2: Matters outstanding

Summary of issue	Audit risk	Management Response
Outstanding issues regarding the 2012 Annual report.	High	
Audit issues in 2011:		
1. Anomalies between MFED & ministries major revenue figures and missing cash book for custom at Airport Bonriki & Post office	High	
2. Lack of reconciliation and control weaknesses over Other government expenditures account	High	
3. Unavailable documents for Special fund balance	Medium	
4. Poor Bank reconciliation which lead to disclosing incorrect cash on hand and at bank balances in the account in particular No.1, No.4, No.5 and No.6	High	
5. Incorrect advance account balances	Medium	
6. Unrealistic balance for sundry deposit reported as positive $8.9 million	High	
7. Non-availability of bank audit certificate to support Contingent Liability balances	Low	
8. Misallocation of interest gains for Rothschild and sons investment posted under consolidated fund	Medium	
9. Incorrect brought down balance for Loan account under Public Debt	Medium	
10. Control weaknesses and incorrect balance	Medium	

Summary of issue	Audit risk	Management Response
for Arrears of Revenue		
11. Un-reconciled items for the No.1 & No.4 accounts not reported under Suspense account instead disclosed under sundry deposits	High	
12.	Medium	
13. Irregularities in the Local Contribution to the Development fund	High	
14. Irregularities in the valuation RERF between Custodian and Fund manager as at 31st December 2011	High	

APPENDIX TWO: LOSSES OF PUBLIC FUNDS

Ministry of Finance & Economic Development

Year	Details		Remarks
2003	Cheques collected and cash by unidentified person	378.00	OAG recommends written off
2005	Shortage of revenue at customs office	1,499.97	Shortage was $999.97 and paid. No further action required
2007	Suspected fraud at Salary section	7,270.10	Case still with Police
2007	Alleged fraud at MFED	504.00	Case still with Police
2007	Alleged fraud at MFED	1,232.50	Case still with Police
		10,884.57	

Ministry of Natural Resource and Development

Year	Details		Remarks
2000	Loss of revenue collection at fish farm	874.30	Place under officer's personal advance
2001	Loss of revenue collection at Agriculture division	1,645.80	Officer imprisoned on 21/11/05 therefore should be written off
2010	Cash shortage & unauthorized opening of government safe FMRD Tanaea	455.70	
		2,975.8	

Ministry of Transport, Communication & Tourism

Year	Details		Remarks
1987	Bairiki Post office	2,758.09	Write off action requested
	Payment of telmo to unauthorized payee	600.00	Write off action requested
1988	Onotoa Post office- loss of cash	1,741.38	Write off action requested
	Serious irregularities in Shipyards Betio	1,420.00	Write off action requested
	Loss of Public funds Post office Makin	347.20	Write off action requested

	Cash shortage April 1988 account Washington	324.03	Write off action requested
1989	Telmo Discrepancies	9,936.75	Write off action requested
	Invalid stamp sales- Post Master	915.34	Write off action requested
1991	Improper use of Philatelic Funds	1,807.22	Write off action requested
1992	Loss of Public Fund KVP	733.35	Write off action requested
2000	Loss of 3 mails bags- ex Air Nauru 2/9	-	
2005	Suspected fraud at Post office Betio	31,500	Requested for suspension on 50% pay set today. AG never receive the case
2005	Suspected fraud at Post Office Betio	7,584.90	$4,500 has been repaid, remaining $1,026.10 should be recovered from the person concerned
2005	Discrepancy on Abaokoro stamp imprest	300.00	Further information be obtained from the responsible Ministry
2010	Alleged fraud at Bikenibeu Post office	7,419.10	
		67,387.36	

Ministry of Works & Energy

Year	Details		Remarks
1998	Alleged misuse of PWD materials by the Chief Engineer	3,202.80	Write off action requested
2007	Alleged misuse of Public fund by Ag DS	31,200	
		34,402.80	

Ministry of Labour, Employment & Cooperative

Year	Details		Remarks
1997	Fisheries Training Centre	468.15	Write off action requested
	Misuse of Korean Fund as Special Imprest	2,000.00	Write off action requested
2000	Alleged misuse of Public Funds at FTC	581.85	Write off action requested
2001	Misuse of Public fund at FTC		Write off action requested
		3,050.00	

Judiciary

Year	Details		Remarks
1989	Misuse of Bus tickets	142.95	Write off action requested
1996	Loss of Public funds at Chief registrar office	828.68	Write off action requested
		971.63	

Police & Prisons

Year	Details		Remarks
1991	Double payment of Pension (Gratuity)	6,272.91	Write off action requested
2009	Improper payment of Leave Grant (Temporary Account Clerk)	13,874.35	OAG's office
		20,147.26	

Ministry of Internal and Social Affairs

Year	Details		Remarks
2003	Shortage of Abaiang state fund a/c	52,855.14	Reported to Police 16/01/03
2006	Shortage of Aranuka state fund a/c	5,408.05	Case for 2004, suspect convicted in Feb

			2006, imprisoned for 3 months
	Loss of Abaiang state & Island fund	8,913.39	OAG's office recommends a write off
	Loss of Butaritari Copra fund	21,637.70	OAG's office recommends a write off
	Loss of Abaiang island fund	396.47	OAG's recommends a write off
		89,210.75	

Ministry of Health and Medical Services

Year	Details		Remarks
2001	Misappropriation of entertainment funds	3,476.65	Write off action requested
2004	Misappropriation of project funds	81,151.53	Suspect in the US, Extradition considered given the amount involved
2008	Shortage of student nurses pocket money	1,056.00	
2009	Alleged fraud at MHMS Revenue section	1,860.50	
2010	Suspected fraud at MHMS	3,844.85	
		91,389.53	

Ministry of Education, Youth & Sport

Year	Details		Remarks
2004	Alleged fraud and abuse of office at TTI	2,761.09	Court dismissed the case, long delay in bringing the case to court ok
2005	Alleged fraud at Kiribati Technical Institute	2,495.23	Suspect imprisoned amount recovered
2008	Alleged fraud at Kiribati Technical Institute	5,137.50	
		10,393.82	

Ministry of Environment and Social Development

Year	Details		Remarks
1996	Alleged misappropriation of public funds- sale of sport equipment	440.00	Write off action requested
		440.00	

Ministry of Line Phoenix Group

Year	Details		Remarks
2003	Alleged fraud of Public funds	2,501.23	Reported to Police on 16/01/03
2004	Alleged embezzlement of Public funds	92,247.00	Officer imprisoned for ten years
2005	Loss of cash at wildlife unit	3,135.00	Officer imprisoned for 1 year, repay $50 each pay day
		97,883.23	

Public Service of Commission

Year	Details		Remarks
2004	Alleged misappropriation of Public funds at PSC	4,720.00	Reported to Commissioner of Police 13/01/05
		4,720.00	

Office of Te Beretitenti

Year	Details		Remarks
2008	Loss of Public fund at OB office	7,353.50	
		7,353.50	

TOTAL	LOSSES OF PUBLIC FUNDS	441,210.25

APPENDIX THREE: COPIES OF SIGNED 2012 ANNUAL ACCOUNTS

GOVERNMENT OF KIRIBATI - STATEMENT No. I

Balance Sheet
as at 31st December 2012

2011 $	Statement No.		2012 $	$
		FUNDS IN HANDS OF CHIEF ACCOUNTANT		
		INVESTMENTS		
294,542,418.28	XX	Investments with HSBC	309,517,188.31	
284,396,686.38	XX	Investments with NICAM	304,358,195.01	
1,377,385.58	XI	Other Investments	2,339,118 77	
580 316,490.24				616,214,502.09
		CASH		
-5,493,883.07	VI	Cash at Bank and on Hand	15,069,139.53	
575,762.35	XIX	Cash in Transit	643,130 35	
-4,918,120.72				15,712,269.88
	VII	**ADVANCES**		
7,066.00		Other Governments	7,066.00	
11,104,425.08		Public Officers	11,780,926.43	
-627,495.86		Sundry Advances	-507,207.17	
10.483,995.22				11,280,785.26
LESS				
	IX	**DEPOSITS**		
-1,046,476.59		Deceased Native Estates	-1,128,790.64	
-33,699.54		Public Officers	-24,856.54	
7,784,943.95		Sundry Deposits	7,346,993.27	
-5,610,864.23		Telmos	-5,154,460.72	
1,093,903.59				1,038,885.37
				644,248,442 60
586,976,268.33				
		ATTRIBUTABLE TO		
-10,237,696.38	II	Consolidated Fund	11,282,176.52	
16,187,943.33	XVI	Development Fund	15,016,044.24	
578,939,104.66	XX	Revenue Equalisation Reserve Fund	613,875,383.32	
-3,086,083.38	V	Stabex Special Fund	-2,617,508.35	
5,173,000.10	V	Other Special Funds	6,690,346.87	
586,976,268.33				644,246,442.60

Accountant General

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GOVERNMENT OF KIRIBATI - STATEMENT No. II

Consolidated Fund

as at 31st December 2012

	Expenditure					Revenue				
	Budget					Budget				
	Org. $'000	Revised $'000	Pro Rata $'000	Actual $'000	(Over)/Under $'000	Org. $'000	Revised $'000	Pro Rata $'000	Actual $'000	Over/(Under) $'000
01 Government of Kiribati Revenue	0	0	0	0	0	0	0	0	0	0
02 Contribution to Development Fund	6,987,345	8,052,378	8,052,378	8,052,378	0	0	0	0	0	0
03 Contribution to RERF	0	0	0	0	0	0	0	0	0	0
09 Support to the Beretitenti	1,028,580	1,028,580	1,028,580	1,173,889	-145,309	0	0	0	0	0
10 Public Service Office	594,484	594,484	594,484	594,534	-50	0	0	0	0	0
11 Judiciary	1,565,650	1,565,650	1,565,650	1,554,034	11,616	-541,200	-541,200	-541,200	-70,629	-470,571
12 Police and Prisons	7,030,624	7,030,624	7,030,624	6,916,415	114,209	-69,900	-69,900	-69,900	-63,378	-6,522
13 Public Service Commission	217,629	230,629	230,629	214,455	16,174	0	0	0	0	0
14 Foreign Affairs	1,059,834	1,161,884	1,161,884	1,286,197	-124,313	-100,000	-100,000	-100,000	-99,370	-631
15 Ministry of Home Affairs and Rural D	2,829,486	2,829,486	2,829,486	2,912,865	-83,379	-81,160	-81,160	-81,160	-77,056	-4,104
16 Ministry Of Environment and Social D	2,519,000	2,519,000	2,519,000	2,583,528	-64,528	-155,300	-155,300	-155,300	-203,657	48,357
17 Maneaba ni Maungatabu	2,182,870	2,258,470	2,258,470	2,585,247	-326,777	-4,600	-4,600	-4,600	-7,664	3,064
18 Ministry Of Commerce, Industry and T	1,187,389	1,187,389	1,187,389	1,174,931	12,458	-44,116	-44,116	-44,116	-54,871	10,755
19 Kiribati National Audit Office	571,086	671,653	671,653	692,282	-20,629	-62,500	-62,500	-62,500	-13,000	-49,500
20 Office of the Attorney General	471,229	471,229	471,229	568,614	-97,385	-1,020	-1,020	-1,020	-78	-942
21 Ministry of Natural Resources Develo	2,079,548	2,079,548	2,079,548	1,958,883	120,665	-30,223,500	-30,223,500	-30,223,500	-58,829,791	28,606,281
22 Ministry of Health and Family Planni	14,121,242	14,121,242	14,121,242	14,053,019	68,223	-108,126	-108,126	-108,126	-124,354	16,228
23 Ministry of Education, Training and	18,638,443	18,638,444	18,638,444	18,963,531	-325,087	-226,356	-226,356	-226,356	-135,096	-91,260
24 Ministry of Information, Communicati	2,652,888	2,652,888	2,652,888	2,626,603	26,285	-3,514,000	-3,514,000	-3,514,000	-2,319,034	-1,194,966
25 Ministry of Finance and Economic Pla	2,720,446	3,140,594	3,140,594	3,033,267	107,327	-35,132,800	-35,132,800	-35,132,800	-66,280,859	31,148,059
27 Ministry of Works and Energy	2,284,380	2,284,380	2,284,380	2,350,110	-65,730	-61,700	-61,700	-61,700	-70,206	8,506
28 Ministry of Labour, Employment and	3,350,964	3,350,964	3,350,964	3,888,698	-537,734	-54,480	-54,480	-54,480	-33,517	-20,963
29 Ministry of Line and Phoenix Develop	2,678,756	2,678,756	2,678,756	3,667,198	-988,442	-388,700	-388,700	-388,700	-456,592	67,892
30 Debt Servicing	1,581,658	5,165,187	5,165,187	7,202,573	-2,037,386	0	0	0	0	0
31 Other Government Expenses	16,935,481	19,892,742	19,892,742	19,266,028	626,714	0	0	0	0	0
Grand Total	95,289,012	103,606,200	103,606,200	107,319,279	-3,713,079	-70,769,458	-70,769,458	-70,769,458	128,839,152	58,069,694

Add Consolidated Fund Brought Forward	10,237,696
	118,601,456
Less Expenditure	107,319,279
Consolidated Fund carried Forward	-11,282,177

Accountant General

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APPENDIX FOUR: SCHEDULE 2 OF CAP 79

SCHEDULE 2
(Section 11)

RULES FOR THE OPERATION OF THE DEVELOPMENT FUND

1. In these Rules "Fund" means the Development Fund.

2. (1) No moneys shall be issued from the Fund for the purpose of meeting any expenditure except in accordance with a warrant under the hand of the Minister authorising the Accountant General to issue those moneys.

(2) Subject to the rules 4, 5, 6 and 7 no warrant shall be issued under paragraph (i) unless the expenditure in question has been authorised by the Maneaba ni Maungatabu by resolution or in accordance with these Rules.

3. (1) The Minister shall cause to be prepared in each financial year estimated of the revenue and expenditure of the Fund for the next following financial year.

(2) The proposals for all expenditure contained in the estimates shall be submitted to the Maneaba ni Maungatabu and a statement showing the estimated balance of the Fund at the commencement of the financial year and the anticipated revenue accruing to and total expenditure from the Fund during the financial year shall also be furnished to the Maneaba ni Maungatabu.

4. (1) If the Maneaba ni Maungatabu has not yet authorised for any financial year expenditure of sums necessary to finance the continued construction and provision of development works for which provision was made from the Fund in the previous financial year the Minister may by warrant authorise the issue from the Fund of such sums as are necessary to finance the continued construction and provision of such works to enable such works to be carried out for a period of 4 months or until the expenditure of sums necessary to finance the continued construction and provision of such works has been approved by the Maneaba ni Maungatabu whichever is the shorter period.

(2) Notwithstanding paragraph (1) no sum may be issued under this rule in respect of any subhead where such sum would be in excess of 20 per cent of the estimate of the total cost for such subhead as it appears in the development estimates or supplementary development estimates approved by the Maneaba ni Maungatabu.

5. (1) When in any financial year the development estimates or supplementary development estimates for that year include an estimate of total cost for any subhead over any period which is in excess of the total sum appropriated for that subhead for the current year the Minister may by warrant authorise the expenditure of any sum which, when added to the expenditure incurred on the corresponding subhead in previous years and to the expenditure already authorised for the same subhead for the current year, does not cause to be exceeded the latest estimate of total cost for that subhead included in the development estimates or supplementary development estimates approved by the Maneaba ni Maungatabu for that year.

(2) When at the commencement of any financial year the provision included for any subhead in the development estimates or supplementary development estimates of the immediately preceding financial year has been only partially expended the Minister may by warrant authorise the expenditure of the unspent balance of such provision under a corresponding subhead in the current financial year:

Provided that the amount so authorised shall not when added to the expenditure incurred in previous years and to the provision already made in the current year, exceed the latest overall estimate of total cost for the subhead included in any development estimates or supplementary development estimates approved by the Maneaba ni Maungatabu.

(3) No warrant under this rule shall authorise the issue of an amount which if it were expended at once would exceed the balance of the Fund remaining after all other expenditure authorised for the year has been provided for.

6. The Minister may with the approval of he Cabinet by warrant authorise the issue from the Fund of such sum as may be necessary for expenditure under any subhead of a special character which is not provided for to the expenditure already authorised by the Maneaba ni Maungatabu for the year and which cannot or cannot without serious injury to the public interest be postponed until adequate provision can be made by the Maneaba ni Maungatabu:

Provided that no such warrant shall authorise the issue of an amount which if it were expended at once would exceed the balance of the Fund remaining after all other expenditure authorised for that year has been provided for.

7. {1) The Minister may in any year by warrant authorise the issue from the Fund of such additional sum as may be necessary for expenditure under any subhead which has been authorised by the Maneaba ni Maungatabu for that year and the issue of which cannot or cannot,

APPENDIX FIVE: GOVERNMENT OF KIRIBATI- STATEMENT NO. XX

RERF PERFORMANCE in 2012

The opening and closing balances of the Revenue Equalization Reserve Fund (RERF) invested with HSBC and NICAM fund managers in 2012, are shown in the table below. Both fund managers operate independently but they follow the RERF policy guidelines provided by the RERF Committee[1]. Both were given the same amount of money to manage in 1995--prior to that all funds were managed by HSBC alone. State Street firm, based in Sydney, Australia, oversees and monitors the performance of the two fund managers and report directly to the Investment Unit in the Ministry of Finance. The Investment Officer receives monthly reports from the fund managers as well as performance reports from State Street, and reports directly to the Minister of Finance and to the RERF Committee. The Accounts Section gets information on the RERF performance from the Investment Officer and the government drawdown's from the ANZ bank statements.

Table. RERF balance in 2012 (AUD$ million)

Fund managers	1st Jan 2012 (opening)	31st Dec 2012 (closing)
RERF – HSBC	$294.54	$309.52
RERF – NICAM	$284.40	$304.36
Total RERF value	**$578.94**	**$613.88**

The total value of the RERF as at 31st December 2012, as stated in the above table, is AUD$613,875,383.32. Out of this total amount, AUD$309,517,188.31 is held by HSBC while the remaining balance of $304,358,195.01 is held by NICAM. The table also shows the movement of the RERF in the whole year--i.e. at the beginning of the year the total value is AUD 578.94 million and at the end of the year it is AU$ 613.88 million, an increase of AUD$34.94m (or 6.0%)[2]. Other relevant information related to the RERF are listed below:

- The total RERF income for the year 2012 is AUD$ 29,099,370[3]--out of which HSBC generated AUD$ 10,415,863 while NICAM contributed AUD$ 18,683,507
- The approved RERF total drawdown in the 2012 budget is $22.5m but the actual drawdown from the RERF during year increased to $37.5m[4]. The increase (of $15 million) is to clear up the government bank overdraft with ANZ.
- The total fee for management, custodian, tax and other services incurred for the year ended 31st December 2012 is $1.47m--this is lower (by $0.12m) than the previous year's total fee of $1.59m.
- As already stated above, the overall increase of the RERF value in 2012 is 6.0%. This is a significant improvement compared to last year's growth of - 0.3%[5].

The brief analysis of the RERF above is based on the documentations and information provided by the Investment Officer, Ministry of Finance. For more detailed information on the RERF, the Investment Officer should be consulted.

[1] This committee is chaired by the Minister of Finance.
[2] This growth rate incorporates the impact of the government withdrawals, which means that the actual growth rate of the fund would have been much higher than the 6% stated here.
[3] The total income includes dividends, interests, and "security gains and losses".
[4] The total amount of drawdown as per HSBC/NICAM statement is $40 million. Also shown is a $2.5 million contribution, but this is actually an internal transaction. On the other hand, the Accounts Section receives from the ANZ bank the total withdrawal of $37.5m, and this will be reflected here--not the $40 million shown in the Fund managers statement.
[5] Last year growth was mistakenly typed as 3.34% when in fact it should be - 0.3%.

SUMMARY OF ASSET MANAGEMENT
AS AT 31 DECEMBER, 2012
BY NICAM AND HSBC

CLASS OR INVESTMENTS / FUND MANAGERS	Q4G1 EQUITIES HSBC	Q4G2 BONDS HSBC	Q4G1/Q4G2 EQUITY/BOND HSBC	Q4G3 EQUITY/BOND NICAM	TOTAL FUNDS INVESTED WITH NICAM/HSBC
OPENING MARKET VALUE	157,168,624.91	137,373,793.37	294,542,418.28	284,396,686.38	578,939,104.66
CONTRIBUTIONS	2,500,000.00	0.00	2,500,000.00	0.00	2,500,000.00
CASH TRANSFERS IN	0.00	0.00	0.00	0.00	0.00
ASSET TRANSFERS IN	0.00	0.00	0.00	0.00	0.00
CASH TRANSFER OUT	0.00	0.00	0.00	0.00	0.00
LESS: WITHDRAWALS	-16,000,000.00	-4,000,000.00	-20,000,000.00	-20,000,000.00	-40,000,000.00
	143,668,524.91	**133,373,793.37**	**277,042,418.28**	**264,396,686.38**	**541,439,104.66**
ADD: INCOME					
Unit Trust Income - Tax Defferred	0.00	0.00	0.00	0.00	0.00
Other Income	26,761.00	0.00	26,761.00	0.00	26,761.00
Settlement Variance	0.00	0.00	0.00	0.00	0.00
Dividend Income	5,196,624.22	0.00	5,196,624.22	0.00	5,196,624.22
Interest Income	12,564.09	5,185,432.92	5,197,997.01	11,896,116.58	17,094,113.59
Currency Gain / Loss Security Settlements	59,529.75	37,069.57	96,599.32	66,412.80	163,012.12
Security Gain / Loss on FX Settlements	-78,957.45	4,261,817.26	4,182,859.81	2,329,488.64	6,512,348.45
Security Gain / Loss on Interest Received	0.00	-6,193.49	-6,193.49	-32.39	-6,225.88
Security Gain / Loss on Dividend received	7,422.32	0.00	7,422.32	0.00	7,422.32
Security Gain / Loss on Tax refund received	-58.86	0.00	-58.86	0.00	-58.86
Average GN/LS on currency disposal	-217,183.97	-64,234.97	-281,418.94	-394,657.98	-676,076.92
Average currency GN/LS	-5,851,672.33	-75,580.56	-5,927,252.89	-405,953.69	-6,333,206.58
Average Security Gain / Loss	1,894,284.64	28,239.13	1,922,523.77	5,192,133.18	7,114,656.95
Total Income	**1,049,313.41**	**9,366,549.86**	**10,415,863.27**	**18,683,507.14**	**29,099,370.41**
LESS: EXPENSES					
Management Fees	320,977.62	277,927.27	598,904.89	336,497.05	935,401.94
Custodian Fees	156,144.90	45,689.72	201,834.62	87,666.97	289,501.59
Other Fees	0.00	0.00	0.00	0.00	0.00
Tax expenses	229,165.32	648.10	229,813.42	13,763.61	243,577.03
Total Expenses	**706,287.84**	**324,265.09**	**1,030,552.93**	**437,927.63**	**1,468,480.56**
LESS : Opening Unrealised App/Dep	9,316,923.84	-4,314,442.96	5,002,480.88	27,336,514.38	32,338,995.26
ADD: Closing Unrealised App / Dep	13,300,238.19	4,786,740.62	18,086,978.81	-5,620,585.26	12,466,393.55
	22,617,162.03	**472,297.66**	**23,089,459.69**	**21,715,929.12**	**44,805,388.81**
CLOSING MARKET VALUE 31/12/2012	**166,628,812.51**	**142,888,375.80**	**309,517,188.31**	**304,358,195.01**	**613,875,383.32**

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CLASS OR INVESTMENTS FUND MANAGERS	Q4G1 EQUITIES HSBC	Q4G2 BONDS HSBC	Q4G1/Q4G2 EQUITY/BOND HSBC	Q4G3 EQUITY/BOND NICAM	TOTAL FUNDS INVESTED WITH NICAM/HSBC
CASH EQUIVALENTS	18,040,174.67	5,768,849.33	23,809,024.00	2,507,196.61	26,316,220.61
EQUITIES	148,404,565.75	0.00	148,404,565.75	0.00	148,404,565.75
FIXED INCOME / BONDS	0.00	135,507,997.65	135,507,997.65	265,565,162.69	401,073,160.34
CASH / RECEIVABLES / PAYABLE	184,072.09	1,611,528.82	1,795,600.91	36,285,835.71	38,081,436.62
	166,628,812.51	**142,888,375.80**	**309,517,188.31**	**304,358,195.01**	**613,875,383.32**
VARIANCE NOTE 1: Rounding	0.00	0.00	0.00	0.00	0.00
TOTAL as at 31/12/2012	**166,628,812.51**	**142,888,375.80**	**309,517,188.31**	**304,358,195.01**	**613,875,383.32**

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GOVERNMENT OF KIRIBATI - STATEMENT No. XX

INVESTMENT WITH HSBC AND NICAM ASSET MANAGEMENT FOR THE

YEAR ENDED 31ST DECEMBER, 2012

COMPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2012	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
ASSET				
AVERAGE COST OF EQUITIES	148,404,565.75	0.00	0.00	148,404,565.75
AVERAGE COST OF FIXED INCOME	0.00	135,507,997.65	265,565,162.69	401,073,160.34
AVERAGE COST OF SHORT TERM INVESTMENTS	0.00	0.00	0.00	0.00
CASH BALANCE	4,739,936.48	982,108.71	7,235,769.39	12,957,814.58
DIVIDEND TAX REFUND RECEIVABLE	10,094.06	0.00	5,165.56	15,259.62
DIVIDENDS RECEIVABLE	159,352.33	0.00	0.00	159,352.33
INTEREST RECEIVABLE	0.00	1,611,153.99	6,280,670.15	7,891,824.14
INTEREST TAX REFUND RECEIVABLE	0.00	0.00	0.00	0.00
OTHER ASSETS	14,625.70	374.83	68,387.13	83,387.66
RECEIVABLE FOR CURRENCY EXCHANGED	0.00	92,429,341.61	65,611,824.99	158,041,166.60
RECEIVABLE FOR INVESTMENTS - OPTIONS	0.00	0.00	0.00	0.00
RECEIVABLE FOR INVESTMENTS SOLD	0.00	0.00	30,000,000.00	30,000,000.00
STOCK LENDING RECEIVABLES	0.00	0.00	0.00	0.00
TOTAL ASSETS	**153,328,574.32**	**230,530,976.79**	**374,766,979.91**	**758,626,531.02**
LIABILITIES				
DIVIDEND PAYABLE - SHORT POSITION	0.00	0.00	0.00	0.00
DIVIDEND TAX WITHHELD LIABILITY	0.00	0.00	0.00	0.00
INTEREST TAX WITHHELD LIABILITY	0.00	0.00	0.00	0.00
MARGIN VARIATION PAYABLE	0.00	0.00	0.00	0.00
OTHER LIABILITIES	0.00	0.00	0.00	0.00
PAYABLE FOR CURRENCY EXCHANGED	0.00	92,429,341.61	65,611,824.99	158,041,166.60
PAYABLE FOR CUSTODIAN FEE	0.00	0.00	0.00	0.00
PAYABLE FOR INVESTMENT - OPTIONS	0.00	0.00	0.00	0.00
PAYABLE FOR INVESTMENTS PURCHASED	0.00	0.00	0.00	0.00
PAYABLE FOR MANAGEMENT FEE -EXPENSE	0.00	0.00	0.00	0.00
TOTAL LIABILITIES	**0.00**	**92,429,341.61**	**65,611,824.99**	**158,041,166.60**
NET ASSETS EXCLUDING MARKET	**153,328,574.32**	**138,101,635.18**	**309,155,154.92**	**600,585,364.42**
UNREALIZED APPRECIATION / DEPRECIATION				
ON FOREIGN CASH POSITIONS	-28.58	-9,887.77	1,843.47	-8,072.88
ON FORWARDS CONTRACTS	0.00	4,389,022.89	944,234.56	5,333,257.45
ON FUTURES	0.00	0.00	0.00	0.00
ON INCOME RECEIVABLES	818.70	-2,863.06	117.95	-1,926.41
ON INVESTMENT & FX RECEIVABLES	0.00	0.00	212,576.15	212,576.15
ON INVESTMENTS	13,299,448.07	410,468.56	-7,008,018.68	6,701,897.95
ON INVESTMENTS & FX PAYABLE	0.00	0.00	1,052,286.64	1,052,286.64
ON OPTIONS	0.00	0.00	0.00	0.00
TOTAL UNREALIZED SEC CUR APPR/DEP	**13,300,238.19**	**4,786,740.62**	**-4,796,959.91**	**13,290,018.90**
TOTAL NET ASSETS AT MARKET	**166,628,812.51**	**142,888,375.80**	**304,358,195.01**	**613,875,383.32**

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COMPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2012	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
INCOME - CURRENT PERIOD				
APPLICATION COST EXERCISED OPTIONS	0.00	0.00	0.00	0.00
AVERAGE CURRENCY GAIN / LOSS	-5,851,672.33	-75,580.56	-405,953.69	-6,333,206.58
AVERAGE GN/LS ON CURRENCY DISPOSAL	-217,183.97	-64,234.97	-394,657.98	-676,076.92
AVERAGE SECURITY GAIN / LOSS	1,894,264.64	28,239.13	5,192,133.18	7,114,656.95
CURRENCY GN/LS ON DIVIDEND RECEIVED	7,422.32	0.00	0.00	7,422.32
CURRENCY GN/LS ON FX SETTLEMENTS	-78,957.45	4,261,817.26	2,329,488.64	6,512,348.45
CURRENCY GN/LS ON INTERST RECEIVED	0.00	-6,193.49	-32.39	-6,225.88
CURRENCY GN/LS ON MARGIN VARIATION	0.00	0.00	0.00	0.00
CURRENCY GN/LS ON SECURITY SETTLEMENTS	59,529.75	37,069.57	66,412.80	163,012.12
CURRENCY GN/LS ON TAX REFUND RECEIVED	-58.86	0.00	0.00	-58.86
DISTRIBUTION INCOME	0.00	0.00	0.00	0.00
DIVIDEND INCOME	5,196,624.22	0.00	0.00	5,196,624.22
DTC REFUND INCOME	0.00	0.00	0.00	0.00
INTEREST INCOME	12,564.09	5,185,432.92	11,896,116.58	17,094,113.59
MARGIN VARIATION	0.00	0.00	0.00	0.00
OPTION INCOME	0.00	0.00	0.00	0.00
OTHER INCOME	26,761.00	0.00	0.00	26,761.00
SETTLEMENT VARIANCE	0.00	0.00	0.00	0.00
STOCK LOAN INCOME	0.00	0.00	0.00	0.00
UNDERWRITING COMMISSION	0.00	0.00	0.00	0.00
UNIT TRUST INCOME - TAX DEFFERRED	0.00	0.00	0.00	0.00
UNIT TRUST INCOME - TAX FREE	0.00	0.00	0.00	0.00
UNIT TRUST INCOME - TAXABLE	0.00	0.00	0.00	0.00
UNIT TRUST INCOME - UNALLOCATED	0.00	0.00	0.00	0.00
TOTAL INCOME	**1,049,313.41**	**9,366,549.86**	**18,683,507.14**	**29,099,370.41**
EXPENSES - CURRENT PERIOD				
ADVANCE CORPORATION TAX EXPENSE	0.00	0.00	0.00	0.00
ANALYTICS FEES	0.00	0.00	0.00	0.00
BANK CHARGES	0.00	0.00	0.00	0.00
CAPITAL GAIN - KOREA	0.00	0.00	0.00	0.00
CAPITAL GAINS TAX THAILAND	0.00	0.00	0.00	0.00
CUSTODIAN FEES	156,144.90	45,689.72	87,666.97	289,501.59
DIVIDEND WITHHOLDING TAX EXPENSE	224,716.92	0.00	0.00	224,716.92
DIVIDENT EXPENSE - SHORT SELL	0.00	0.00	0.00	0.00
FINANCIAL INSTITUTIONS DUTY	0.00	0.00	0.00	0.00
INTEREST WITHOLDING TAX EXPENSE	1,467.38	648.10	13,763.61	15,879.09
MALAYSIAN NEGATIVE INTEREST	0.00	0.00	0.00	0.00
MANAGEMENT FEES	320,977.62	277,927.27	336,497.05	935,401.94
OPTION EXPENSE	0.00	0.00	0.00	0.00
OTH EXPENSES	2,981.02	0.00	0.00	2,981.02
STAMP DUTY	0.00	0.00	0.00	0.00
TOTAL EXPENSES	**706,287.84**	**324,265.09**	**437,927.63**	**1,468,480.56**
NET INCOME - CURRENT PERIOD	**343,025.57**	**9,042,284.77**	**18,245,579.51**	**27,630,889.85**

CAPITAL

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COMPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2012	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
ASSET TRANSFERS IN	0.00	0.00	0.00	0.00
ASSET TRANSFERS OUT	0.00	0.00	0.00	0.00
CALL PAYMENT/REDEMPTION	0.00	0.00	0.00	0.00
CASH TRANSFERS IN	0.00	0.00	0.00	0.00
CASH TRANSFERS OUT	0.00	0.00	0.00	0.00
CONTRIBUTIONS	2,500,000.00	0.00	0.00	2,500,000.00
INTERLEDGER CURRENCY TRABSFERS OUT	-188,206,164.92	-700,885,118.65	-1,520,435,192.64	-2,409,526,476.21
INTERLEDGER CURRENCY TRANSFERS IN	188,206,164.92	700,885,118.65	1,520,435,192.64	2,409,526,476.21
NET INCOME - CURRENT YEAR	343,025.57	9,042,284.77	18,245,579.51	27,630,889.85
NET INTERLEDGER TRANSFERS	0.00	0.00	0.00	0.00
PRIOR YEARS AT COST	166,485,548.75	133,059,350.41	311,733,200.76	611,278,099.92
WITHDRAWALS	-16,000,000.00	-4,000,000.00	-20,000,000.00	-40,000,000.00
TOTAL CAPITAL	**153,328,574.32**	**138,101,635.18**	**309,978,780.27**	**601,408,989.77**
UNREALIZED APPRECIATION/DEPRECIATION	13,300,238.19	4,786,740.62	-4,796,959.91	13,290,018.90
NET CAPITAL AT MARKET:	**166,628,812.51**	**142,888,375.80**	**305,181,820.36**	**614,699,008.67**

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APPENDIX SIX: Sundry Deposit 2012

Sundry Deposits Accounts	Amount 2012	Amount 2011
FSP- Suva		6123.6
Development Bank	-85,145.79	-146,544.24
DoL Trust Fund	44,265.28	44,777.68
FDA Loans	1,190,738.36	1,186,988.82
No name given	-145.54	-145.54
Contribution to KPF	1,577,390.45	1,585,466.66
Housing Loans	-153,860.67	-213,122.20
Insurance	-98,556.40	-44,114.06
Bangao Court Order		6,541.05
Judiciary Deposits (KSSL/BSL	40.00	
BKL Deposits on Outer Is	-1,266,223.17	-927,803.12
Bank Agency Arrangements	2,757,814.31	2,885,652.99
Bank Charges Salary Deductions	-21,940.55	-21,930.80
Bank Salaries	237,487.68	588,734.14
Deed of Release 2007-08 MPLID	-199,161.61	-199,161.61
BOK Savings Account	-148,097.30	-39,687.34
BPC Banaba- Perpertual Deposit	-5,500.00	0.00
Chief Registrar	-248,076.23	-61,365.76
Constabulary reward	-686.85	-245.87
Contra Bank Statements	-4,100.47	-4,130.47
Security Bond Immigration	-103,108.69	-105,958.69
Service Charges	-3,283.97	-5,464.26
Priwate Works PWD	-73,544.65	-68,967.71
Prison Fund	-33.40	-33.40
Telecom Training costs	0.20	0.20
Telmo salary		-763,508.44
Trade Creditors	117,666.87	118,266.87
Small industry projects	-24,786.86	-25,241.11
No. 1 PP1 unreconciled balance	-13,795,670.93	-13,795,670.93
Linnix Service charges	-1,580.25	
Rent	276,107.85	255,838.45
KPF Loan	-727.59	-311,442.91
No.4 PPI unreconciled balance	20,794,390.54	20,794,390.54
No.6 PPI unreconciled balance	438,666.10	438,666.10
No.1 unidentified credit	-3,835,160.04	-3,392,961.67
Outer Island other deposits	113,966.17	85,026.02
Police Fund	5,550.11	5,550.11
Prior Periods Unclaimed cheques	-137,699.69	-89,579.15
Total Balance	7,346,993.27	7,784,943.95

APPENDIX SEVEN: SUPPLEMENTARY LCDF

Head 02: Contribution to Development Fund

Subhead (Output)	Project Allocation	Approved	Supplementary now Sought	Notes
International Air Service Subsidy	2401-12-4352	Output=1,700,000 (Input=1,700,000)	65,033	CW1/12 dated 29/10/12
SOE Reform Programme	2504-12-A051	Ouput=0 (Input =0)	1,000,000	Cater for implementation of SOE Reform Programme
Total			**1,065,033**	

APPENDIX EIGHT: PUBLIC DEBT BLANCE 31 DEC' 2012

Loan Repayments for KSSL				Loan Repayment for PUB transfer to 791273			
	KSSL				**PUB**		
Jan	70,000			Jan	50,000.00		
Jan	70,000			Feb	50,000.00		
Feb	70,000			Mar	50,000.00		
April	70,000			Apr	50,000.00		
May	70,000			May	50,000.00		
May	70,000			June	50,000.00		
July	70,000			July	50,000.00		
July	70,000			Aug	50,000.00		
Sep	70,000				**400,000.00**		
Oct	70,000						
	700,000.00						
		Total	$1.1m				
Source: GL Other Financing 2012							

APPENDIX NINE: SPECIAL FUND BALANCES- STATEMENT NO.V

GOVERNMENT OF KIRIBATI - STATEMENT No. V

Statement of Other Special Fund Balances
as at 31st December 2012

FUNDS IN HANDS OF ACCOUNTANT GENERAL

FUNDS		Balance per Balance Sheet at 2012	Receipts Year Ending 2012	Payments Year Ending 2012	Balance per Balance Sheet at Year End 2012	Represented by		
						Stabex	Other	Total
Coinage Security Special Fund	F0070000010A	-351,695.84	-7,973.03	0.00	-359,668.87		-359,668.87	-359,668.87
Kaoki Mange Special Fund	F0070000030A	-83,839.98	-197,189.65	166,844.35	-114,185.28		-114,185.28	-114,185.28
Import Levy Fund	F0070000061A	-1,612,169.00	-3,564,027.06	2,223,762.19	-2,952,433.87		-2,952,433.87	-2,952,433.87
Stabex Special Fund	F0070000062A	-60,815.55	-1,390.80	2,854.80	-59,351.55	-59,351.55		-59,351.55
No.6 Stabex Fund	F0070000063A	-411,641.29	-6,497,688.46	8,192,234.94	1,282,905.19	1,282,905.19		1,282,905.19
Local Stabex Fund	F0070000064A	3,558,540.22	-8,900,444.84	6,735,858.13	1,393,953.51	1,393,953.51		1,393,953.51
Leper Trust Board	F0070000066A	-9,996.47	0.00	1,035.20	-8,961.27		-8,961.27	-8,961.27
Dai Nippon Causeway Fund	F0070000067A	-2,517,511.35	-266,238.61	181,985.88	-2,601,764.08		-2,601,764.08	-2,601,764.08
Escrow Funds	F0070000068A	-66,536.76	0.00	0.00	-66,536.76		-66,536.76	-66,536.76
CIVIL AVIATION SPECIAL FUND	F0070000069A	531,250.65	-964,251.81	967,654.34	-527,848.12		-527,848.12	-527,848.12
Plant & Vechile Unit (PVU)	F0070000070A	0.00	-475,642.51	416,693.94	-58,948.57		-58,948.57	-58,948.57
		-2,086,916.67	-20,874,846.77	18,888,923.77	-4,072,839.67	2,617,507.15	6,690,346.82	-4,072,839.67

Accountant General