Kiribati National Audit Office

Promoting Transperancy and Accountability

For the Parliament and People of Kiribati

Auditor-General Report on

The Accounts of the Government of the Republic of Kiribati for the Year Ended 31 December 2008

Part 1: Statements i to xx

Tabled December 2009

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Promoting Transparency and Accountability
For The Parliament And People Of Kiribati

File Ref. Date: 30th November 2009

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

Dear Sir,

I have the honour to transmit herewith the Annual Report on the Public Accounts for 2008 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.

This year the report has been split into two parts to aid reading and accountability, namely:

- Part 1: Statements i to xx, and
- Part 2: Revenue and expenditure: Government of Kiribati Ministries.

however my overall audit opinion covers both parts.

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 Planning.

Yours faithfully,

Raimon Taake
Auditor General

Contents

1. PREFACE

The key outputs of the Kiribati National Audit Office are the audit report (management letter) to audit clients, audit opinions and Annual Audit Reports to the legislature.

Over the past several years, I have ostensibly tabled the same audit issues, year in year out in my audit reports on the Annual Public Accounts with little or no demonstrable audit impact which would suggest that the whole exercise has been a pointless one. This phenomenon however, is not restricted to the Government of Kiribati (GOK), as the impact of audit findings varies across the Pacific Island Governments, with some who take little or no responsive action.

Audit Impact – benefit
Apart from promoting transparency and accountability, saving tax dollars, improving programs and operations, and providing better service to the public are the bottom lines of audit work. Recommendations are the vehicles by which these objectives are sought.

But it is action on recommendations—not the recommendations themselves—that helps the government work better at less cost.

Accountability for actions
Agency managers are primarily responsible for resolving and implementing recommendations promptly and effectively. At the same time, auditors are responsible for following up to see that action is taken and that intended results are realized.

How to get action on audit recommendations
Getting any action on audit recommendations has been a persistent problem – since my appointment and that of my predecessors. This has been a constant source of frustration for my office as one of an auditor's basic objectives is to have his or her work make a difference. For instance even though bank reconciliations are regarded as a fundamental key control worldwide, the MFED had not adequately reconciled the main bank account since 2003.

Whilst there are many reasons for this inaction I would put it down to not being able to gain managements' commitment[1] to improve, and that fact that there no real negative consequences for managers to deliver results and improve performance.

1.1. NEW INITIATIVES TO SUPPORT CHANGE

1.1.1. Audit Follow-Up System

Whilst my office has had followed-up audit issues in the past, we have decided to adopt a more rigorous and aggressive monitoring and follow-up system in order to secure management commitment. The approach will be based on providing a Corrective Action Plan (CAP) to our audit clients that lists all audit issues and seek a formal written response to:

- specific steps that have been or will be taken to implement the audit recommendations,

[1] A commitment to results is perhaps the most important, but least tangible, requirement for ensuring that the benefits of audit work are realized

- the responsible office, and
- due date for completion

Following this there will be periodic follow-up with audit clients and escalation to the PAC as required.

1.1.2. Closing – out Audit issues

In the past, my approach has been to continue to include issues in successive reports until they have been actioned. For instance at 31 Dec 2007 there were cumulative missing payment vouchers totalling $8,345,110.32 where I was unable to satisfy myself that the amounts were proper charges to the Public Funds.

Whilst I am not proposing to dismiss the significance of this and other matters I am also mindful of the fact that after such a period of time that the current vouchers will actually never be produced or alternatively the cost of locating these would not be commensurate with the benefit of doing so. Certainly international experience suggests that audit issues older than three years are usually no longer relevant and in turn are unlikely to be resolved.

Furthermore, with this and other matters the PAC have recommended that issues be written – off, but I cannot be held responsible if accountable officers do nothing, and this conduct is continually supported by the GOK.

Accordingly this year, I will only details those issues that are of significant importance and clear all others if resolution has not been achieved within three years.

1.1.3. 2008 Report Detail

In the past, my reports have also been very detailed and I am proposing that they be abridged with more of the detail being provided directly to the audit client in an internal management letter, and addressed as a part of the follow-up process. In this regard I have tendered all of detailed issues and recommendations raised on the 2008 Public Accounts to the MFED and asked for a formal management response and action plan. It is proposed that a status update on progress against the CAP will be sent to the PAC six-monthly.

Finally I am hopeful that these new initiatives will enhance transparency and accountability for the Republic of Kiribati and in turn:

- enhancing audit impact, and
- bring about improvements in the systems of public financial management (PFM).

OPINION OF THE AUDITOR GENERAL
ON THE ACCOUNTS OF THE GOVERNMENT OF THE REPUBLIC OF KIRIBATI
FOR THE YEAR ENDED 31 DECEMBER 2008

2. AUDIT OPINION

I have audited the Public Accounts for the years ended 31 December 2008. The preparation and presentation of these accounts are the responsibility of the Accountant General who transmitted them to me in accordance with Cap. 79 Part VI of the Public Finance (Control and Audit) Ordinance 1976. The preparation and presentation of the accounts and information contained therein, as well as the existence of internal controls, which should be fully effective for the prevention of error or fraud, are the responsibilities of the Accountant General.

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

I conducted my audit in accordance with the provisions of the Ordinance 1976 and Generally Accepted Auditing Standards to provide reasonable assurance as to whether the accounts are free of material mis-statement and errors. My procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the accounts, and the evaluation of accounting policies and significant estimates. 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 as to present a view of the transactions of the Consolidated Fund, and the other matters which is consistent with my understanding of those operations.

The accounts do not purport to reflect the total activity of Government and, as they are prepared essentially on a cash basis, they do not disclose at year end the unpaid commitments. They also do not disclose Government Assets and Liabilities in the hands of Government Owned Companies and Statutory Corporations, Government Fixed Assets, and project funds received outside of the Government No. 4 Account.

QUALIFICATION

I am unable to satisfy myself as to the correctness of the 2008 financial statements because of:-

1) Anomalies between MFED and Ministries major revenue figures (refer para 7.1.1),
2) Anomalies with the Stabex Special fund balance (refer para 8.2),
3) Incorrect Cash on hand and at bank balances (refer Section 9 and 9.5),
4) Incorrect advance account balances (refer section 10), and non availability of imprest Subsidiary accounts,
5) Irregularities in Deposit account balances (refer section 12),
6) Weaknesses in the control of Telmos (see para 12.3),
7) Incorrect Contingent liabilities (refer section 13),
8) Queries regarding the status of loans issued (refer section 15) and public debt (refer section 16),

9) No information on arrears of revenue (refer section 17),

10) Lack of bank Reconciliation and the failure to capture in-kind contributions through the Development Funds (refer section 19),

11) Irregularities in the Cash in transit figure(refer section 21) and

12) Concerns regarding the budgeting, utilisation of supplementary funding and incorrect posting of expenditure (See separate report on Revenue and expenditure for GOK Ministries)

QUALIFIED AUDIT OPINION:

In my opinion, except for the effects on the financial statements of the matters referred to in the qualification paragraph, the Public Accounts comply with the relevant provisions of the Public Finance (Control and Audit) Ordinance 1976 and are properly drawn up in accordance with the provisions of that Ordinance 1976 and are in accordance with accounts and records of the Accountant General

Raimon Taake
Auditor General

2.1. 2008 Annual Accounts Scorecard

	ASSETS	**2008**	**Rating**
	INVESTMENTS		
XX	Investments with HSBC	281,829,824	B
XX	Investments with NICAM	279,771,276	B
XI	Other Investments	794,163	**C**
		562,395,264	
	CASH		
VI	Cash on Hand & bank	1,105,957	**D**
XIX	Cash in transit	7,261,907	**D**
		8,367,865	
VII	**ADVANCES**		
	Other Governments	7,066	**C**
	Public Officers	10,140,865	**C**
	Sundry Advances	1,465,080	**C**
		11,613,011	
LESS	**LIABILITIES**		
IX	**DEPOSITS**		
	Deceased Native Estates	-1,121,502	**D**
	Public Officers	-22,233	**C**
	Sundry Deposits	-2,888,593	**D**
	Telmos	-644,482	**D**
		-4,676,811	
	NET TOTAL ASSETS	**577,699,329**	
	Consolidated Fund	9,329,496	**C**
	Development Fund	9,312,953	**D**
	RERF	561,601,101	**B**
	Stabex	-5,430,692	**D**
	Other Special Funds	2,886,418	B
	Grand Total	**577,699,329**	

2. OVERVIEW

2.2. What we did

2007 Corrective Action Plan (CAP)
Following the release of my report on the 2007 annual accounts I provided the MFED with a CAP listing all my audit issues and sought a formal written response. Unfortunately after numerous attempts with the MFED, a formal response was not received and I was unable to obtain any commitment from them establish any clear accountability

2008 CAP
A similar approach was adopted on the 2008 accounts however with a new A/AG and A/DAG at the helm we were able to obtain their commitment to progress the matters raised according to relative priorities.

<u>Clearing Account for old audit issues</u>
To clear some of the issues that go back several years we have decided in conjunction with the PS and A/AG of MFED to "**drawn the line in the sand**" with a 1 January 2009 start date.

What this means is that any audit issues pre 1 Jan 2009 will be cleared[2] where:

- there is insufficient supporting information, or
- we believe that the cost of remedying the issue is not commensurate with the expected benefits.

Whilst this does present some risk exposures we believe that the benefits of adopting this approach far outweigh the benefits.

The main thrust is to clear the books or the backlogs that have existed for far too long and focus on getting a clean and timely set of accounts presented for 2010. If for instance we had insisted that No 1 bank account be reconciled for 2008 we were advised that this would not occur realistically till 2010 and with other changes if they could be addressed, not likely till the end of 2010, two years after the period end date.

Therefore, in moving forward the MFED will reflect all these changes in the 2009 annual accounts and commence regular reconciliations of the bank and other key accounts from January 2009. If this is done I am hopeful that the closing balances for 2009 for the first time in many years will be complete and accurate. From this the 2010 accounts should represent a true and fair view of the financial position of the GOK on a cash basis.

The challenge will be on the MFED staff to continue with their commitment to improve which will no doubt have clear benefits for the GOK, and I wish them well with their endeavours.

2 The entries with respect to these issues will be posted to a clearing account

2.3. What we found?

Audit Opinion
Predictably the 2008 opinion is not a good one, but no worse than the opinions issued in previous years. Having said this I am pleased to report that some of the current 2006-07 audit issues raised and others going back several prior years have now been addressed by the MFED and in turn have been cleared by my office.

Bank reconciliations
The last time the No 1 bank account was successfully reconciled was in 2003, and subsequent attempts to reconcile have been unsuccessful. Clearly there is no substitute for correct bank account reconciliations. It is one of the most important steps in the entire accounting process. If the bank account balance on your books does not agree with the ending balance on the bank's statement you may have serious problems and will not be able to get an accurate picture of your overall financial condition.

The MFED have made considerable effort to reconcile the No 1 bank account in 2009, but at this stage are still experiencing problems (refer chapter 9). We have nonetheless been advised by the A/AG of the MFED that it is planned that the whole reconciliation process of the No 1 account and other bank accounts (No 4, 5 and 6) will be complete and correct prior to the submission of the 2009 annual accounts in June 2010.

Other changes
Notwithstanding the above the MFED have:

- Posted a number of entries to the clearing account, and others are in progress, and
- A list of “write-off” issues has been prepared to present to Parliament in this sitting.

Whilst we would have like to have seen a greater take up of audit issues I am mindful that this is the first demonstrable changes that my office has seen for over a decade, and it is now up to the MFED A/AG to deliver on the bank reconciliations and the remaining issues.

2.4. Report Format

My office has received some criticism about it the fact that its annual audit report format has ostensibly not changed for over a decade, and whilst this is the case the same could be said about the MFED annual accounts format.

This year my report format has changed and has been structured to align with Annual accounts submitted by the MFED, in that there are sections covering each of the twenty (20) Statements reflected in the annual accounts. I trust this new format will be easier for our clients and stakeholders to follow.

2.5. Acknowledgement

There are many other areas detailed in the report where the MFED have demonstrated a commitment to improve by taking positive action in relation to my audit issues. In turn I am deeply grateful to the leadership shown by the new PS and in particular that of the A/AG his senior staff and operationally all of the finance staff of the Ministry. I would like to specifically to acknowledge the commitment and professionalism of Mr Eriati T Manaima in responding to many audit queries from my staff.

I must also recognise and greatly appreciate the hard work of my staff without whose efforts and dedication I would have been unable to discharge my legislative responsibilities and to complete this report.

MFED Overall Comments

Overall[3] we agree in principal with the audit opinion and the recommendations that have made by the audit office and have been working with them during the year in validating these and where practical endeavouring to address and action recommendations.

Specifically we have in conjunction with the audit office established an action plan to ensure that all the issues raised in relation to the 2008 annual accounts are addressed according to relative priorities. As a part of this we hope that we can report our progress periodically not only to the audit office but also to Parliament through the Public accounts Committee.

Notably there have been changes this year but there is no doubt that further work that needs to be undertaken by the MFED. Our number one priority is to complete the reconciliations of all of the bank accounts prior to the submission of the 2009 annual accounts in June 2010. Unfortunately we are experiencing problems with the reconciliation of the No 1 account but that does not damper our resolve to have this completed as agreed.

There are so many people that I would like to acknowledge in the completion of the 2008 annual accounts but would specifically express my deep appreciation and gratitude to the staff of the Accounts Division of the MFED, whose commitment and dedication made this work possible.

3 We have decided not to provide individual management comments to each chapter in the report but address at a macro report level

3. PRIOR SYSTEMIC FINANCIAL AUDIT ISSUES

The following issues are strategic and systemic in nature that have been noted in this and previous audit cycles. Whilst I have not established clear accountabilities for the follow-up of these issues accountable officers should be vigilant to ensure that these matters are adequately addressed in their Government Ministries and across Government.

<table>
<tr><th>Issue</th><th>Impact</th></tr>
<tr><td>Failure to respond promptly to audit queries</td><td>Audit queries are based on irregularities uncovered during our audit inspections and prompt responses to audit queries will ensure that irregularities are addressed and corrected if necessary</td></tr>
<tr><td>Missing Payment Vouchers</td><td>Control over accounting documents, in support of payments made out of the public purse, is essential to discharge financial responsibilities</td></tr>
<tr><td>Asset registers not adequately maintained</td><td rowspan="3">There is a risk that assets will be lost, stolen or other, thereby impacting on service delivery.</td></tr>
<tr><td>Failure to periodically verify non-expendable stores</td></tr>
<tr><td>Failure to verify stock on Outer Islands</td></tr>
<tr><td>Charges for private telephone calls</td><td>There are fraudulent expenses being incurred and Secretaries should introduce more stringent controls to reduce the costs to the GOK</td></tr>
<tr><td>Salary Overpayment – Govt Employees</td><td>There are unnecessary costs being incurred by the GOK and recovery is costly. As a priority reconciliations should occur between the MFED and Ministries.</td></tr>
<tr><td>Financial & stores regulations require updating</td><td>There are sections of the regulations that are inconsistent with other legislation and contemporary account practices, giving rise to confusion and inefficiencies.</td></tr>
<tr><td>National Audit Act</td><td>There is an urgent need to adopt the new audit Act to bring it in line with contemporary audit practices.</td></tr>
<tr><td>Lack of reconciliation between MFED and responsible Ministry balances</td><td>Revenue account balances will be either over or understated and line Ministries should ensure that they reconcile with the MFED.</td></tr>
</table>

4. NEW PERFORMANCE AND SYSTEMIC ISSUES

The following performance issues are systemic in nature and have been raised in this report in order to enhance improvements in public sector performance. They do not directly relate to my opinion on the 2008 annual accounts of the GOK.

4.1. The Management of Leave and Absences

Overview
Sickness and absence is generally accepted to cost business a significant amount of money each year, and accordingly needs to be appropriately managed.

How much does sickness and absence cost the Kiribati Government?
It is difficult to answer this question however UK research suggests that Sickness and absence could cost UK businesses as much as 16% of payroll. Based on the 2009 budgeted figure this could be as much as $7 million in Kiribati.

Background
Government employees are governed by the National Conditions of Service. Instructions concerning attendance & absences are spelt out in sections D8 & D9 of the NCS and section F covers annual leave.

Secretaries are responsible to ensure that staff are aware of the provisions of the NCS and in turn to comply with these at all times. At the Leadership summit in August 2008 all Secretaries agreed that attendance registers or equivalent mechanisms would be established to manage absenteeism within their Ministries.

What did we do?
My Office reviewed leave and absence processes and controls at the following five Government Ministries:

- Ministry of Finance & Economic Development,
- Ministry Health& Medical Services
- Ministry of Fisheries and Marine Development
- Ministry of Labour & Human Resource Development
- Ministry of Environment Lands & Agricultural Development.

Discussions were also held with the PSO.

Whilst our findings were formally sent to all Secretaries for validation and comment, not one response was received.

What did we find?
Overall we found that the framework and controls in place across the majority of GOK Ministries to manage leave and absences is inadequate.

In many Ministries it was unclear if:

- staff were attending on a given day, in that most attendance registers were either not being maintained adequately, nor reviewed or were grossly out of date,

- staff were working the prescribed 7 hrs 15 min / day[4], and
- corrective action was taken for unauthorized absences.

There is also an equity issues across GOK in that some Secretaries adopt a firm stance on non-attendance and others don't do anything.

The PSO are the policy owners of the NCS and are developing performance targets and indicators for PS contracts ie: yearly leave liability. Further work on this is encouraged to establish clear accountabilities for absences.

Whilst systemically there were problems with absences across the GOK some Ministries reflected established better practices.

Better Practices:

- One Ministry discussed absences at Senior Management Meetings and used attendance incentives or bonuses as a tool of absence management.
- One Division of another Ministry maintained:
  - comprehensive attendance, sick, leave registers together with a register to reconcile late hours and overtime hours.
  - demonstrated corrective action.

What should be done?

Secretaries should be held accountable for the management of leave and absenteeism. They should also:

- exercise sound leadership, and where necessary establish proactive absence management directives or instructions,
- provide training and development,
- hold senior managers accountable for the attendance of staff,
- instigate disciplinary procedures for unacceptable absence levels, and
- instigate periodic quality assurance measures to assure themselves that leave and absences are being managed.

Epilogue

Whilst the cost of absences would be significant to the GOK, the cost of inactivity at work is likely to be much higher i.e.

- staff who sleep during the day, and
- who play computer games and chat on google, yahoo etc

Once Secretaries can manage the basics of getting people to work, they can then focus efforts to ensure staff, deliver against outputs and outcomes.

4 One Secretary introduced head counts in the morning and afternoon to ensure staff were at work for the whole day

4.2. ICT Governance Framework and Audit Issues

Background: What is ICT[5] Governance?
In simple terms Governance "is a collection of rules or principles and practices that guide the correct application and delivery of ICT. The components include:"6

- Strategy – clear direction statements.
- Policies – actions to be adopted by an individual, government
- Procedures and Guidelines- clear details as to who, what, how.
- Accountabilities- Clarity of roles and responsibilities.

Why ICT is very important to the Government of Kiribati?
In general the Kiribati agencies[7] have become increasingly dependent on computerized information systems to carry out their operations and to process, maintain and report essential information. Some of these systems also are used to prepare financial statements and accounts. As a consequence, the reliability of computerized data and the systems that process it are a major concern to the Kiribati National Audit Office.

An information technology working group has not been established as called for under the National Development Strategies 2004–2007, and information technology equipment and software continues to be provided on an ad hoc basis with consequent incompatibility and waste.

Methodology
Each year my office undertakes ICT audits at selected agencies.

What we found
Overall, it is apparent that there is no current ICT Government Framework to guide the Republic of Kiribati. We are aware that there is a National ICT officer, who has developed a framework including some policies and procedures but to date this has not been endorsed for implementation.

What should be done?
GOK should endorse and implement the ICT Gov framework as a priority.

The key issues noted as a result of our ICT reviews that may be addressed as a part of a comprehensive ICT framework include:

Confidentiality and Integrity Our office found that there was:

- a lack of logical controls i.e. such as using user id and passwords in place to protect personal and sensitive information. For example most agencies do not use user ID and passwords to gain access to computer systems so there is a significant risk to information held by those agencies.

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[5] **Information and communication technologies** (**ICT**) is an umbrella term that covers all technical means for processing and communicating information
6 http://www.decs.sa.gov.au/it/pages/indecs/ICTgovernance/?reFlag=1
7 Includes Govt ministries, State Owned Enterprises and Island Councils

- Most of the agencies operated their systems without full awareness of the threats and vulnerabilities posed to their IT environment and most had no way of knowing if data theft or manipulation has occurred.
- None of the agencies were consistently applying simple administrative controls. For example how to scan flash drives, updating antivirus, etc.
- There was no simple IT training for agency staff, and
- We found in with one sector of government that most of its data was not available at the time due to data loss, missing files, incomplete data inputs, etc

Inappropriate use of IT – most of agencies are unaware of the existence of the telecommunication Act 2004 8 and in turn there is a high risk of "Computer misuse" as per part VII. For instance:

- One Government staff member received an e-mail from a distributor advising that he was breaching copyright by downloading movies. This could have negative financial implications for the GOK.
- Many staff spend all their day on the computer playing games and using Gmail, yahoo etc,
- A new virus has spread throughout Kiribati written in the local language known as "Wikiokio". This is a very destructive virus and has the potential to destroy file servers and even personal computers if it gains entry into computer systems.

Business continuity and Data Backup – Overall we found that agencies had no continuity plans for both computerized and manual systems, and there was very poor data backup.

Software License – Most Government ministries illegally use Windows however Linux is recommended by the ICT officer as being free and also more user friendly. Specifically we found that most of the Government computers had installed illegal operating systems and therefore Microsoft Counterfeiting warning messages were always displayed on these computers. This improper practice also applied to the antivirus that they used which were not genuine.

Access to computer Resources - we found that the ICT environment was only partially secured, in that there was a lack of:

- access control i.e. barriers, closed rooms, lock cabinets etc,
- fundamental controls i.e. login using username and passwords, right permission on shared network drives or folders, in place to protect personal and sensitive information.

8 AG Office: An Act to Provide for and regulate telecommunication systems and services and related matters Telecommunication Act 2004.

4.3. Towards enhanced Financial Reporting

Background
For far too long I have been reporting to Parliament that there are sections of the Finance and stores regulations that are inconsistent with other legislation and contemporary accounting practices, giving rise to confusion and inefficiencies. Whilst it is unlikely that these issues will be ever be resolved in the foreseeable short term this does not preclude the MFED Accountant General from adopting and implementing current accounting standards or better practices to guide their work.

What we did: Cash Standard
After research undertaken one such standard issued by the Under the International Public Sector Accounting Standard[9] covers "***Financial Reporting Under the Cash Basis of Accounting***", seems to be a good fit for the GOK.

What the Standard says
An entity should prepare and present general purpose financial statements which include
(a) a statement of cash receipts and payments which:

> ***(i) recognizes all cash receipts, cash payments and cash balances controlled by the entity; and***
> ***(ii) separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard;***

(b) accounting policies and explanatory notes; and
(c) when the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the statement of cash receipts and payments in accordance with paragraph 1.9.8 of this Standard.

Although not mandatory disclosure of information about such matters as the cash balances of the entity, whether cash is generated from taxes, fines, fees, and/or borrowings and whether it was expended to meet operating costs, for the acquisition of capital assets or for the retirement of debt will enhance transparency and accountability of financial reporting.

What we found
Overall we found many areas where the GOK annual accounts did not comply with the standard or established better practices. In particular:

- cash receipts, cash payments and cash balances for major fund categories are presented consistent with the standard, however it does not aggregate these to reflect a consolidated cash receipts and payments.
- The accounts fail to provide adequate notes[10] to the financial statements, which limits a users understanding. For example:
    - There is no reference to the use of accounting standards or other standards nor a statement of compliance with these,
    - the summary at the front of the 2008 annual accounts signed by the MFED A/AG refers to unauthorised expenditure of $10,589 million and weaknesses from both Accountable Officers and the MFED. Whilst this

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9 Issued by the International Federation of Accountants (IFAC): http://www.ifac.org.
10 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information.

is partially true $7.544 million of this is actually relates to the creation of a debt servicing account in response to my prior audit recommendations.

- The accounts should provide basic asset information to enhance accountability and transparency (refer chapter 19),
- The MFED Divisions do not adopt the Govt Finance Statistics standards[11], and as a consequence reports from MFED Statistics, Accounts and donors are different and not comparable,
- Details of arrears of expenditure (commitments) are presently not captured nor monitored by the MFED.
- Information on Island and Urban Councils should be presented to enhance accountability and transparency.

What should be done

The Accountant General should adopt a relevant standard to guide financial officers and my office in the conduct of its audits.

As a part of this other disclosures should be made to enhance transparency and accountability such as:

- Basic asset information,
- Information of Island and Urban Councils,
- Details of arrears of expenditure (commitments) presently not captured nor monitored.

11 Findings 2009 PEFA assessment

5. Statement No I: BALANCE SHEET

5.1. Assets and liabilities

At the end of 2008 the GOK held the following assets and liabilities:-

Stat		2006	2007	2008	2007-08 Inc / Dec
	ASSETS				
	INVESTMENTS				
XX	Investments with HSBC	339,671,171	319,915,413	281,829,824	-38,085,589
XX	Investments with NICAM	319,913,710	317,420,189	279,771,276	-37,648,913
XI	Other Investments	1,312,964	725,067	794,163	69,096
		660,897,846	**638,060,670**	**562,395,264**	**-75,665,406**
	CASH				
VI	Cash on Hand & bank	-8,698,566	7,264,991	1,105,957	-6,159,034
XIX	Cash in transit	2,458,878	2,505,366	7,261,907	-4,756,541
		-6,239,688	**9,770,358**	**8,367,865**	**-1,402,493**
VII	**ADVANCES**				
	Other Governments	7,066	7,066	7,066	
	Public Officers	8,838,797	9,949,622	10,140,865	191,243
	Sundry Advances	8,701,036	8,729,016	1,465,080	-7,263,936
		17,546,899	**18,685,704**	**11,613,011**	**-7,072,693**
	Total Assets				
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-566,053	-671,955	-1,121,502	-449,547
	Public Officers	-11,979	-18,433	-22,233	-3,800
	Sundry Deposits	-147,234	-862,864	-2,888,593	-2,025,729
	Telmos	-1,997,723	-1,242,623	-644,482	-598,141
		-2,722,990	**-2,795,876**	**-4,676,865**	**-1,880,989**
	NET TOTAL ASSETS	**669,482,067**	**663,720,855**	**577,699,276**	**-86,021,579**

Table 5a: GOK Assets and Liabilities

5.2. Net Total assets

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

Title	2005	2006	2007	2008	INC/(DEC)08
Consolidated Fund	-13,596,765	-4,856,558	15,677,967	9,329,496	-6,348,471
Development Fund	22,192,260	15,672,023	11,377,479	9,312,953	-2,064,526
RERF	646,816,933	659,584,881	637,335,602	561,601,101	-75,734,501
Stabex	-2,614,852	-3,667,794	-3,608,211	-5,430,692	-1,822,481
Other Special Funds	**2,689,350**	**2,749,513**	**2,938,017**	**2,886,418**	**-51,599**
Grand Total	**655,486,927**	**669,482,067**	**663,720,855**	**577,699,276**	**-86,021,579**

Table 5b: GOK Net Total assets

The Realised Net Total Assets has been in decline since the end of 2006. During 2008 the value significantly decreased by over 86 million which is caused predominantly by the fall in value of the investment of over $75 million[12].

12 The RERF is discussed at chapter 22

6. Statement No II: CONSOLIDATED FUND

6.1. 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.

6.2. Balance of the Fund

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

Title	2005	2006	2007	2008
	$	$	$	$
Balance Brought Forward	-2,953,835	-13,596,765	-4,856,558	**15,677,968**
Add:				
Total revenue collected	73,934,851	92,992,386	106,370,995	92,359,787
Sub-total	**70,981,016**	**79,395,621**	**101,514,437**	**108,037,754**
Less:				
Total Expenditure incurred	84,577,781	84,252,179	85,836,469	98,708,258
Excess/(Deficit) of Actual Revenue Over Expenditure	**-13,596,765**	**-4,856,558**	**15,677,968**	**9,329,496**
RERF drawdown	**15,000,000**	**33,500,000**	**45,000,000**	**25,000,000**
Adjusted Revenue	**58,934,000**	**59,492,000**	**61,370,000**	**67,359,000**
Adjusted Defecit	**-25,642,930**	**-24,759,793**	**-24,465,474**	**-31,348,471**

Table 6a: Consolidated Fund balances 2005-2008

The above table shows positive balances in the C/FWD balances in the consolidated fund for the years 2007 and 2008. This reflects an overall excess of revenue over expenditures for the years however the revenue does include the RERF drawdown[13].

Excluding the RERF drawdown from the revenue figures reflects an approach where each year the GOK is spending far in excess of what they are receiving from generated revenue. In the longer term in the absence of other strategies, this clearly is not sustainable (refer chapter 22).

13 The amount withdrawn from the RERF should be kept to a minimum and just sufficient enough to cover the Government annual budget deficit

7. Statement No III & IV: REVENUE & EXPENDITURE

The tables that follow provide a summary of the estimated and actual revenues and expenditures from the Consolidated Fund for the past three years. With revenue nothing has changed regarding my previous concerns expressed regarding the rigour of some account balances and the failure to undertake reconciliations.

7.1. Assessment of Revenue

REVENUE	2007		2008		2008 Variance
Title	**Estimate**	**Actual**	**Estimate**	**Actual**	**Act Vs Estimate**
Fishing License	27,000,000	25,419,845	25,060,767	31,240,228	6,179,461
Import Duty	20,000,000	17,993,481	18,228,918	16,078,071	-2,150,847
RERF	**0**	**45,000,000**	**0**	**25,000,000**	**25,000,000**
Company Taxation	4,250,000	4,613,145	4,500,000	5,892,133	1,392,133
Hotel Tax	50,000	59,631	50,000	42,272	-7,728
Dividends	1,200,000	1,762,937	752,000	1,027,986	275,986
Interest on Consolidated Fund	0	-105,196	0	48,469	48,469
Sale of Green Passports	0	0	0	0	0
Personal Tax	6,650,000	7,234,913	7,050,000	7,630,635	580,635
NASDA	1,665,922	987,231	1,573,000	1,132,945	-440,055
Cruise Line Revenue	704,869	543,601	989,000	206,915	-782,085
Sea Launch	0	0	0	0	0
Air Space Usage Fee	216,850	0	216,850	X[14]	-216,850
Appron. From Prev Years Sur	0	0	0	0	0
Chinese Tracking Station		3,300	0	0	0
Sub Total	**61,737,641**	**103,512,888**	**58,420,535**	**88,299,655**	**29,879,120**
Misc Revenue	3,125,895	2,858,107	3,420,093	4,060,132	640,039
Total	**64,863,536**	**106,370,995**	**61,840,628**	**92,359,787**	**30,519,159**
Adjusted less RERF		**61,370,000**			**6,179,461**

Table 7a: Estimated against actual Revenue collected between 2007 to 2008

The figures reflect that overall actual revenue (less RERF) has been increasing over the past three years which is a good result. However, the following have reduced between 2007 and 2008 and in fact, are lower than the 2006 actual results:

	2006 Actual	**2007 Actual**	**2008 Actual**	**Change**
Import Duty	16,572,349	17,993,481	16,078,071	-1,915,410
Hotel Tax	68,065	59,631	42,272	-17,359
Dividends	1,234,138	1,762,937	1,027,986	-734,951
Cruise Line Rev	337,448	543,601	206,915	-336,686

7.1.1. Lacks Rigour and Reconciliation

These balances lack rigour and are not being reconciled for instance.

	MFED	**Min Balance**	**Variance**
Company tax	5,892,133	5,472,930	568,702
Hotel tax	42,272	44,793	2,521
NASDA fee	1,132,945	--	

14 No revenue from Air Space usage returns have been received in 2008

Import Duty	16,078,071	16,281,497	20,3425
Personal Tax	7,630,635	7,479,071	151,564
Fishing License	31,240,228	32,165,464	925,236

Of particular concern is the variance between MFED and Customs and Taxation Divisions which are both divisions are part of MFED. Some Ministries did not exercise sufficient care over their source documents and the balance for Cruise Line could not be verified since the relevant documents could not be produced.

These concerns collectively, clearly cast serious doubts on the balances reflected in the Annual Accounts.

It is recommended that the MFED and the concerned Ministries reconcile their accounts and maintain adequate supporting records.

7.2. Assessment of Expenditure

	2006	2006	2007	2007	2008	2008
Title	Estimate	Actual	Estimate	Actual	Estimate	Actual
Cont to Development Fund	78,194	78,194	0	0	570,816	570,816
Support to Beretitenti	946,935	948,846	1,079,294	908,073	1,083,617	1,004,894
Public Service Office	1,047,296	1,021,592	1,047,296	1,001,065	1,052,441	1,049,592
Judiciary	1,351,074	1,334,989	1,348,818	1,404,256	1,435,946	1,341,353
Police & Prisons	6,634,656	6,693,744	6,573,155	6,460,198	6,627,210	6,602,774
Public Service Commission	214,045	222,663	214,045	166,660	214,928	219,601
Foreign Affairs	1,109,378	999,417	1,109,378	690,046	1,104,618	974,586
Min Home Affairs & Rural D	2,680,669	2,587,22	2,569,990	2,593,860	3,150,355	3,102,545
Min Environment & Social Dev	2,644,816	2,695,680	2,664,815	2,502,776	2,692,155	2,586,153
Maneaba ni Maungatabu	1,604,256	1,556,296	1,939,689	1,887,911	2,266,482	2,422,081
Min of Commerce, Ind & T	1,080,532	1,082,274	1,080,532	1.246,902	1,115,966	1,062,923
Kiribati National Audit Office	585,418	566,657	585,418	526,014	591,562	563,729
Office of the Attorney General	534,795	413,281	454,203	400,516	457,710	409,640
Min of Natural Res & Develop	1,876,982	1,882,929	1,876,982	1,707,115	1,902,127	1,763,039
Min Health & family Plan	14,762,728	13,215,608	13,028,219	14,561,118	14,890,094	17,640,681
Min Education, train &	21,825,516	22,063,994	20,491,650	21,022,616	21,135,346	20,641,690
Min Info, Comm & C	3,387,446	3,419,972	3,161,274	3,310,944	3,387,735	3,370,330
Min Finance & Econ Plan	2,468,568	2,505,567	2,451,968	2,537,079	2,473,656	2,562,159
Min Works & Energy	2,825,841	2,750,623	2,727,204	2,671,335	2,748,731	2,448,998
Min Labour, Employ &	2,323,265	2,111,985	2,786,194	2,673,040	3,166,093	2,994,140
Min Line Phoenix & devel	2,983,132	2,766,486	2,918,092	2,912,593	3,293,100	3,339,406
Debt servicing	176,000	295,616	2,284,000	2,284,000	656,750	8,200,848
Other Gov Expenses	13,054,163	12,892,283	13,068,163	12,368,352	13,892,278	13,836,278
Total	**86,195,705**	**81,518,696**	**85,470,379**	**85,836,469**	**89,909,718**	**98,708,258**

Table 7b: Estimated against actual Expenditure between 2006 to 2008

For several years actual expenditure has been increasing and in 2008 expenditure increased by 12.87 million compared to 2007. This is predominantly due to:

- An increase in debt servicing of 7.544 million, and
- Unauthorised expenditures by various Ministries.

Note: Further analysis and commentary of both 2008 revenue and expenditure by Ministry is detailed in a separate Auditor General's report.

8. Statement No V: SPECIAL FUNDS

8.1. Establishment, Purpose and Management of the Fund

The establishment and management of special funds are governed by the relevant provision of the constitution and Public Finance (Control and Audit) Act. Each fund has its own purpose and can be used only for that purpose.

The RERF is also a special fund and this is discussed at section 22.

8.2. Special Fund Balances

Special Funds balance as at 31 December 2007 and 2008 are credit balances of $670,193 and $2,544,274 as detailed in table 6a below.

Title	2005	2006	2007	2008
Coinage	282,451	289,881	300,169	312,862
Kaoki Mange	149,694	183,710	174,333	222,446
Import Levy	126,574	15,587	44,951	-319,636
Stabex	-2,614,852	-3,667,794	-3,608,211	-5,430,691
Leper Trust	1,243	5,403	5,425	5425
Dai Nippon Causeway	1,811,431	1,896,554	2,054,759	2,306,943
Escrow Account	317,955	358,377	358,377	358,377
Grand Total	**74,498**	**-908,280**	**-670,193**	**-2,544,274**

Table 8a: Special Fund balances

A review of the following account balances found:

Dai Nippon Causeway: There was no reconciliation and a number of PVs and RV were missing during the review totalling $20,674.05, and these should be located and sent to my office for review.

Stabex: There has been a significant increase in the overall negative account balance for 2008, although this could not be explained by the MFED, nor could we verify this due to the absence of reconciliations. On further review of the Stabex funds we found:

- There were no reconciliations,
- A discrepancy between the bank account and the general ledger of ($1,459,439.06)
- There were minor anomalies between the PV State fund and the postings in the general ledger totalling $2860.20.

Recommendations
MFED should:

- ensure that reconciliations occur on a timely manner,
- take greater care to maintain and present records for audit purposes, and
- investigate the anomalies above and make adjustments accordingly.

9. Statement No VI: CASH ON HAND AND AT BANK

Based on un-reconciled bank balances, the Cash on Hand and at Bank balance has reduced by $6.15 million to $1.1 million between 2007 and 2008. Because bank reconciliations have not been completed (as per previous year audit reports) I cannot place reliance on these figures. Furthermore info obtained from the ANZ bank at 31 December 2008 reflects quite different balances compared to those reflected in the accounts.

	2007	2008	Bank Confirmation @ 31 Dec 2008	Last complete bank Reconciliation
BANK OF KIRIBATI				
NO 1 A/C	(17,797,758)	(12,106,225)	(3,115,608)	2003
IBDs with BOK Ltd		(1,2000,000)		
KPF Clearing Account		(2,433,171)		N/A
Met Office A/C 819328	20,000	20,000		
No. 4 Account	24,469,083	22,285,508	(292,563)	2004
No. 5 Account (Kiritimati)	(533,197)	(4,643,401)	348,016	2003
No. 6 Account (Stabex)	5,379	(1,605,784)	(6,345)	Never
Xmas No.5 Account	750,000	0.00		N/A
	6,913,508	**316,924**		
OTHER				
Sub-Accountants	67,894	67,894		
Cash - Local Gov	246,618	684,167		
Agents	36,970	36,970		
	351,483	**789,033**		
TOTAL per Balance Sheet (Statement 1)	**7,264,991**	**1,105,957.99**		

Table 9a: Cash at bank and hand summary

9.1. No. 1 account

The overdraft from the MFED records for years 2007 and 2008 are $17,797,758 and $12,106,225 respectively, however these cannot be relied upon. The last time the MFED successfully reconciled the No 1 account was in 2003 and subsequent attempts to reconcile the account have been unsuccessful.

In 2008 the MFED endeavoured to reconcile the bank account but were unsuccessful with anomalies totalling some $2.8 million.

For 2009 they have reconciled the January 2009 figures, but for February 2009 they presently have a difference between the bank and cashbook of over $3 million which they are currently checking to source documentation. In addition to this MFED have reconciled deposits to July 2009 and payments up to March 2009.

We have been advised by the A/AG that it is planned that the whole reconciliation process of the No 1 account and other bank accounts (No 4, 5 and 6) will be complete and correct prior to the submission of the 2009 annual accounts in June 2010.

KPF Clearing Account
MFED advised that this account should have a nil balance but they had neglected to make the postings. This will occur in 2009.

9.2. No. 4 account

Although the bank reconciliation statement has been submitted for years 2005 and 2006, we are unable to place reliance on these since it is only a reconciliation between the Cash Book and the General Ledger and not with the Bank balance. As I mentioned in my 2007 audit report, such bank reconciliation is not in a standard format.

9.3. No. 5 account (Kiritimati)

The overdraft from the MFED records for years 2007 and 2008 are $533,197.15 and $4,643,401 respectively. This differs significantly from the MLPID records that were reviewed by my office in Sept 2009, as shown in the table below.

	Source	**2007**	**2008**
No. 5 Account (Kiritimati)	MFED - ledger	(533,197.15)	(4,643,401.73)
No. 5 Account (Kiritimati)	MLPID records	163,713.99	350,638.25
Variance		**-696,911.14**	**-4,994,039.98**

The last time that the bank account was adequately reconciled was in 2003 but these records were destroyed in the fire in 2004. The MLPID are nonetheless to be commended because they recommenced reconciliations of the bank account to their cashbook from 2008. Nonetheless, they also need to ensure that their records are aligned with those of the MFED.

9.4. Bank Reconciliations

As from the table on the previous page, reconciliations are still yet to be completed and with those undertaken they are unfortunately not adequate.

Bank reconciliations from 2009
In moving forward, consistent with our desire to make improvements we agreed with the A/Accountant General that he would work on getting the 2009 bank reconciliations completed and up to date for all accounts.

As of date of tabling, the No 1 bank account has not been reconciled for 2009 and this is most disappointing.

Recommendation:
The MFED Accountant General should ensure that bank reconciliations on all accounts are completed from 2009 onwards.

These should be reviewed by management to ensure that entries are accurate and they are completed in time;

9.5. Cash Other $789,033.01

This account totalling $789,033.01 in 2008 forms part of the Cash at Bank and on Hand and is made up of the accounts detailed in the following table:

Title $	2006	2007 $	2008 $	INC/DEC 07-08 in $
Sub-Accountants		67,894.59	67,894.50	Nil
Cash-local Govt	198,460.05	246,618.12	684,167.86	437,549.74
Cash With Agents		36,970.56	36,970.56	Nil
Total Other	**277,378.55**	**351,483.27**	**789,033.01**	437,549.74

Table 9a: Cash other

There are still many outstanding audit issues from previous reports.

9.5.1. Sub-Accountant $67,894.59

The transactions for Sub-Accountants, has now been transferred to Cash – Local Government so this matter is now cleared.

9.5.2. Cash – Local Government: $684,167

At the end of 2008 the Cash-local had a net balance of $684,167 compared to the 2007 figure of $246,618.12. During the audit of the Cash Local Account, the following irregularities were noted:

- Variance of $206,575.05 between cashbook and General ledger Account,
- Double posting of $(8,345.35) under Abemama State Fund account,
- Numerous understatements,
- Omission of State Funds,
- Numerous Mispostings,
- Shortage of $1,034.40 -Postal Bairiki

The MFED have also failed to undertake reconciliations and overall management and supervision is poor.

9.5.3. Board of Survey

It was noted that with great concern that there was no Board of Survey (BOS) reports received from all state funds (Makin to Arorae including Fanning, Washington, Kanton and Orona conducted on 31st of December 2009. In this respect, we are unable to verify the cashbook balances of the above state funds

Recommendation
MFED should correct the anomalies abovementioned, commence reconciliations and ensure BOS are submitted as a priority.

10. Statement No VII: ADVANCE ACCOUNT

The above asset account comprises of advances issued and approved.

Title	2005	2006	2007	2008	Inc/(Dec)'08
Other Government	7,066.00	7,066.00	7,066.00	7,066.00	0.00
Public Officer	8,125,036.27	8,838,797.34	9,949,622.15	10,140,865.50	191,243.35
Miscellaneous	4,548,931.54	8,701,036.20	8,729,016.04	1,465,080.13	-7,263,935.91
Total	**12,681,033.81**	**17,546,899.54**	**18,685,704.19**	**11,613,011.63**	**4,865,865.73**

Table 10a: Position of advances for the past several years

Overall the level of advances in 2008 has significantly decreased. This is predominantly due to clearing erroneous entries in the Miscellaneous, as recommended in my previous reports.

10.1. Other Government

As detailed in my previous audit reports – recommend write-off.

10.2. Public Officers

Title	2005	2006	2007	2008	Inc/(Dec)'08
	$	$	$		$
Advances	1,989,918.26	2,211,132.29	2,638,906.17	2,776,181.66	137,275.49
Imprests	2,105,766.11	2,110,901.69	2,171,109.73	2,126,392.16	-44,717.57
Stabex Imprest	3,723,747.40	4,235,986.70	4,604,318.15	4,604,318.15	0.00
Standing Imprest	305,604.50	280,776.66	535,288.10	633,973.53	98,685.43
Total	**8,125,036.27**	**8,838,797.34**	**9,949,622.15**	**10,140,865.50**	**191,243.35**

Table 10b: Breakdown of Public Officers

Overall the net balance of these advance accounts has increased marginally from 9.949 to $10.140 million.

10.2.1. Advances

The account balance has increased during the year and covers both Salary and Personal Advances that public employees owe to Government. During review we noted the following issues:

- **Subsidiary ledger** – not provided for the Salary and the Personal Advance, and as such we could not verify the account.
- **Unaccounted $267,989.18:** Audit found that a number of advances totalling $267,989.18 still have a PF number as a result they have not yet accounted in the New Advance Module Ledger (L100A000002A). The MFED should confirm this and advise my office of the outcome.
- **Unsupported Advances- $231,916.49** There were a number of personal advances that were not fully supported with relevant documentation,

- **L100A000000A-(129,821.77)** this is a clearing account which should have a zero balance and action should be taken to clear this via the main control account. (L100A000002A).

10.2.2. Imprest Travel - $2,171,109 (2007), $2,126,392 (2008)

The net balance indicates that $2,126,392.16 remains outstanding with Public employees as at 31st December 2008. The balance covers imprests for overseas, local and Projects.
During the review we noted the following issues:

- **Subsidiary ledger:** not provided.
- **Improper issue of Special Imprest:** There were a number of imprests issued even though prior balances had not yet been cleared.
- **Outstanding of $477,161.24:** From the Register, MFED have still not yet sent letters to imprest holders to remind them to retire their imprest after 10 days after they returned from the particular trip.

<u>Outstanding Audit Recommendation:</u>

- **The Accountant General should as a priority commence maintaining a subsidiary ledger which comprises a list of imprest holders and reconcile this to the general ledger;**
- **A monthly aged imprest should be produced to show all outstanding accounts and this is used as a start to produce reminder letters;**
- **A reminder letter should be sent to an employee who fails to pay his/her account within 10 days**

10.2.3. Stabex Imprest (L300A): $4,604,318.15 (2008)*

Nothing has changed since my last audit report.

The transactions should be charged to Local Stabex Fund.

10.2.4. Standing Imprest $633,973.53 (2008)

The above account details the Standing Imprest currently in the hands of various Postmasters and others totalling $633,973.53 as at 31st of December 2008. It is of great concern that all standing imprests should be replenished at the end of the financial year which has not occurred. During the review we also noted the following::

- **JOO4609516A-Kiatoa Iaoniman-$8,800.00:** audit found that this imprest payable to Kiatoa Iaoniman was fully retired on the 12/03/09, and needs to be adjusted.
- Previous balances under Okoro Iuta, Taatai Tata, Tabuia Kaiekieki,Baitere Aiaimoa, Taveuni Temari,Taniera Kataua,Tatoa Teiwaki,Taarai. Roua,Willie Tekanene,Tarai. Kiatoa,Tiotibin. Matiota, Tibou Iotebwa, should be reviewed and realistic figures provided to my office,
- **Unrecovered Standing Imprest $4,774.70:** payable to Kiribati Consulate – Hawaii, Aust, and NZ has not been cleared 1999 and should be written off.

10.3. Advances Miscellaneous

The account comprised of advances in respect of personal and government owned companies accounts. The PAC recommendation that the three accounts, CFTC, Crane South and Naruai be written off has yet to be implemented.

Title	2005	2006	2007	2008	Inc/(Dec)'08
	$	$	$		$
CFTC Advance	1,366.00	1,366.00	1,366.00	1,3660.00	N/Change
Crane South	2,407.83	2,407.83	2,407.83	2,4703.83	N/change
Naruai A.	196.15	196.15	196.15	196.15	N/Change
Returned Cheques	4,544,961.56	8,697,066.22	8,725,046.06	1,461,110.15	-7,263,935.91
Total	**4,548,931.54**	**8,701,036.20**	**8,729,016.04**	**1,465,080.13**	**-7,263,935.91**

Table 10c: Advances Miscellaneous

10.3.1. Returned Cheques $1,461,110.15 (2008)

The value of returned cheques as at 2008 had decreased significantly by $7,267,855.57 as compared to 2007. This decrease relates predominantly to the creation and transfer of $7,201,536.55 to Adv A/C-BOK for debt servicing (direct debits and interest on the bank overdraft), an issue raised in my previous audit reports. With the current audit a number of irregularities were noted including:

- Anomalies with respect to bounced cheques, misallocation and missing cheques,
- Clearing accounts, incomplete postings and clearance through the General Ledger, and
- Incorrect customer balances, and others with double account codes and closed accounts,
- Failure to maintain an up-to-date bounced cheque register, and
- Receipt vouchers (RV#2809089-2809098 of September'08) to the value of $512,023.95 were not taken into account for the year 2008, resulting in an understatement in the No1 account (M0030000001A)..

Additionally the prior audit recommendations remain extant:

- Settlement of $91,907.00 to ANZ bank for Solar Energy company's overdrawn account
- Loan repayment for Abamakoro Trading Ltd totalling to $1,175,659.03

<u>Previous Audit Recommendations: Cheques</u>
MFED should:

- **adjust the queries above,**
- **ensure that all cheques are safeguarded and placed in an appropriate and a secure location**
- **retained listing of bounce cheques**
- **review the balances and submit for write off those outstanding cheques that can no longer be recovered.**
- **remind account clerk officers not to allow or accept personal cheques, regardless of its value.**

11. Statement no VIII: ADVANCES FROM DEPOSITS

Nil

12. Statement No IX: DEPOSIT ACCOUNTS

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 authorised 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.

Title	2005	2006	2007	2008	Inc/(Dec)'08
	$	$	$		$
Deceased Native Estate	536,611	566,053	671,955	-1,121,502	-1,793,457
Public Officer	3,361	11,979	18,433	-22,233	-40,666
Sundry	526,475	147,234	862,864	-2,888,646	-3,751,510
Telmos	(2,960,359)	1,997,723	1,242,623	-644,482	-1,887,105
Total	**(1,893,911)**	**2,722,990**	**2,795,876**	**-4,676,865**	**-7,472,741**

Table 8a: Deposit Accounts

At the end of 2008 the Accounts had a net balance of ($ 4,676,865) however this balance (as with previous years) is incorrect as it includes huge un-reconciled balances such as Deceased Native Estate accounts, Sundry deposit and Telmos.

12.1. Deceased Native Estates

The balance of DNE at the end of 2008 is ($ 1,121,502). As in previous years the accuracy of this figure could not be verified as I could not get the proper lists or balance from Lands, nor were the figures reconciled on a regular basis with the record kept by MFED or vice versa.

The Lands Division should maintain adequate records and reconcile these to the MFED on a regular basis.

12.2. Sundry Deposits

The net balance of the Sundry Deposits account increased by $715,629.22 in 2007 and then by -$ 3,751,510 in 2008.

Included in the above balance were debit balances, of $3,467,838.47, $4,131,674.07, $4,228,613.13 for years: 2006, 2007 and 2008 respectively. These matters have been raised in previous audit reports and have yet to be addressed by the MFED.

All balances should be reconciled and cleared otherwise they will accumulate to a point where MFED will no longer be able to substantiate them.

12.3. Telmo

Telmo weaknesses and recommendations have been highlighted in my previous reports but have yet to be addressed by the MFED.

12.3.1. Telmo Salary (P0052,I0052) - $5,797,639.73 (2007), -$6,530,923 .64 ($2008)

The balances for the above account indicate that Government owes more than $6 m in telmo salaries, which is highly unlikely to be the case as most salaries are paid out when they fall due. The problem here is similar to above.

Overall Recommendations

Immediate attention must be given to improving and strengthening the overall discipline of reconciliations and review process and procedures. The Accountant General must ensure that these review of process and procedures are undertaken.

13. Statement No X: CONTINGENT LIABILITIES

Bank of Kiribati

The bank of Kiribati was approached to confirm balances. These balances vary considerably to those reflected in the 2008 annual accounts.

		ANZ Bank info @ 31 Dec 2008		
	2008 accounts	**Overdraft limit**	**Utilised amount on OD**	**Term Loan balance**
Kiribati Govt	11,280,000	8,000,000	(3,115,000)	Nil
BKL	2,100,000	1,100,000	1,012,000	1,044,000
BSL	1,000,000	500,000	499,000	Nil
KCM	400,000	200,000	128,000	Nil
CPPL	300,000	300,000	273,000	Nil
TSKL	6,747,000	Nil	Nil	6,491,000
KCS	450,000	450,000	413,000	Nil
KOIL	9,000,000	7,300,000	1,529,000	2,608,000
TBC	58,000	68,000	59,000	Nil
KSSL	7,200,000	2,000,000	2,016,000	5,116,000
PUB	760,000	760,000	797,000	Nil
ASC	635,000	635,000	633,000	Nil
KPA	750,000	750,000	702,000	Nil
TKL	350,000			
OHL	154,000	20,000	2,000	119,000
BPA	180,000	100,000	32,000	Nil
KSCL	276,000			
AKL	1,154,000	900,000	897,000	207,000
KHLP	-	Nil	Nil	Nil
Total	**42,784,000**	**23.163**		

Table 13a: Contingent liabilities summary

Recommendation

The MFED should enhance that its figures are reconciled and accord with the bank. Furthermore additional disclosure should be made with supporting notes,

14. Statement No XI: INVESTMENTS

The statement details investments with respect to the RERF of $561,601,101.06 [15]and other investments totalling $794,163.25.

14.1. Other Investments: $794,163.25

An auditor may perform a number of tests over a basic investment system including:

- Purchases and sales of investments,
- Investment income,
- Verification of title and value of securities.

Findings

Whilst the MFED were able to provide basic information for its other investments, these were on spreadsheets that they had maintained manually. The investments were not recorded in a register or as separate ledger accounts in Attache, but my office was advised that this would occur in 2009.

With investments:

- AUD A/c 55-1999 5th Anniversary, and
- IMF No 2.

the MFED were unable to provide any source documents to enable us to verify the existence and ownership of these investments.

Recommendation

The MFED should enhance its controls over “other investments”.

Furthermore, when MFED can verify the existence, ownership and completeness of these Investments the information should be sent to my office for review.

15 RERF addressed at Chapter 22 - Statement No 20

15. Statement No XII: LOANS ISSUED FROM THE CONSOLIDATED FUND and OTHER

15.1. Overall Total of Outstanding Loan: $7,070,185.45

Section 39(i)(XII) of the Public Finance (Control and Audit) Act stipulates that the statement of outstanding loans is to be submitted together with the annual accounts. The statement provided as at the end of 2008 contained the outstanding loan and public debts balance of $7,070,185.45 and $14,590,404.34 respectively.

15.2. 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 Corporation	Develop Fund	1980/81	199,900	480,700	Write off
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**	

Table 15a: Loans from the Consolidated and Development fund

The corresponding repayments on the loans have been neglected for some time[16] and as the total amount is substantial, it should be cleared.

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 should seek renegotiation of the terms and conditions, cancellation or conversion of the debt with the ADB.

16 Most of loans are long outstanding for more than 20 years

16. Statement No XIII: PUBLIC DEBT – Loans from the ADB

Borrower	Financed by	Year	Outstanding	Recommendation
Betio/Bairiki Causeway	ADB	1985	316,588.99	Inactive
Betio Shipyard	ADB	1988	629,792.24	Inactive
PUB	ADB	1989	845,096.59	Inactive
PUB	ADB	1990	1,016,120.36	Inactive
DBK	ADB	1991	1,168,731.67	Inactive
SAPHE	ADB	2000	13,057,851.28	Inactive
			$17,034,181.13	

Table 16a: Public Debt: loans from the ADB

The above loans are considered Public Debt which essentially means that when the ADB demands repayment of the loan and if the borrower is unable to pay back the loan, then such loans will have to be repaid back from public funds.

I strongly recommend that Government satisfy itself that these loans have been used for the purpose for which they were issued and that the organizations listed above provide formal advice in relation to the debt and their repayment capability.

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 to cancel or convert the debt into a grant.

It is recommended during PAC meeting that MFED should review the above Public Debt as it seems already included in the previous table or loans as financed under Consolidated and Development funds.

17. Statement No XIV: ARREARS OF REVENUE.

Under section 65 of the Finance Regulations 1974 (FR) all accountable officers responsible for the collection of revenue are required to submit a return of arrears of revenue to the Accountant General not later than the 31st January. The Consolidated Return is required to be rendered by the Accountant General under Section 39(1) (XIV) of the Public Finance (Control & Audit) Act.

From the table below, arrears of revenue has been reported each year in the Annual Accounts since 1972, however there is a nil balance reported from 2005 to present.

Year	Balance	Year	Balance
1972 - 1998	8,677,026	2004	265,133
1999	541,622	2005	0
2000	699,245	2006	0
2001	547,876	2007	0
2002	10,749	2008	0
2003	352,385		
		Grand Total	**11,094,039.22**

Table 17a: GOK Yearly breakdown of the total arrears of revenue

With the prior year outstanding balances there is very little chance that these amounts will be recovered, and action has been now initiated by the MFED to write these off.

The Nil balance reflected in the Annual Accounts is clearly incorrect given the fact that revenues are still being reflected in some ministries' accounts and from our findings from Kiritimati Island below:

Division	Amount	Revenue	Info correct at	Period	Retired or transferred
Customs	Unknown	Import Duty & Levies	Aug 09	unknown	
Lands	$816,799.70	Land lease	Aug 09	2000-2009	
MLPID	$1,057,441.09	Electricity bills	Aug 09	Prior years	$6620.90
MLPID	$233,787.42	Water Bills	Aug 09	Prior years	$12,168.23
Taxation	$874,176.21	Various	Dec 07	Prior years	
MLPID	Unknown	House Rent	Aug 09	Unknown	
TOTAL	**$2,982,204.42**[17]				

Table 13b: Kiritimati Revenue figures from Ministries

17 Where possible my office has tried to verify these account balances however problems were experienced with the adequacy of some of the records and the size of the job at hand. Having said this, it is the accountable officers not my responsibility to ensure the account balances are correct.

Given Kiritimati Island is nearly $3 million the overall arrears of revenue for the Govt of Kiribati is likely to be significant.

The MFED have indicated to my office that requests for this information have been sent to Ministries yearly from 2005, but there have been no responses received. This represents just another instance of Secretary's not being accountable and in turn no consequences for failing to discharge their responsibilities.

Recommendation
Accountable officers are to ensure that returns are submitted to the Accountant General who will consolidate these and present them in the Annual Accounts.

Where Accountable Officers fail to discharge their responsibilities corrective or disciplinary action should be taken.

18. Statement No XV: UNALLOCATED STORES

There were no unallocated stores or manufacturing accounts opened in 2008.

18.1. Losses of Public Funds and Stores

The value of losses of Public Funds and Stores as at 31 December 2008 is $407,165 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.

18.2. Age Analysis of Losses of Funds and Stores

Ministry	1999 & Prior	2000	2001	2003	2004 - 2007	2008	Total
Finance	-	-		378	10506		**10,884**
NRD	-	874	1,645				**2,520**
MICT	20,583				39,384		**59,968**
Works	3,202				31,200		**34,402**
Labour	2,468	518					**3,050**
Judiciary	971						**971**
Police	6,272						**6,272**
MHRD	-			52,855	36,355		**89,210**
Health	-		3,476		81,151		**84,628**
Education	1,824				5,256	**5,137**	**12,217**
Environment	$440						**440**
Line &Phoenix				2,501	95,382		**97,883**
PSC	-				4,720		**4,720**
	35,763[18]	**1,392**	**5,122**	**55,734**	**303,956**	**5,137**[19]	**$ 407,165**

Table 18a: Age analysis of losses of funds and stores

The amount of $407,165 can be further broken down to losses of funds and stores per Ministry as detailed in the table 8b.

18 The Senior Internal Auditor had made a request to the Secretary for MFED for the amount of $35,763.68 for write off for the years 1999 & prior.
19 This relates to the loss of funds, no losses of stores have been reported in 2008.

Ministry		Funds	Stores	Total
Finance		10,884		10,884
Natural Resources and Dev		2,520		2,520
Transport and Comm		59,968		59,968
Works		34,402		34,402
Labour		3,050		3,050
Judiciary		971		971
Police and Prison		6,272	-	6,272
Maneaba		-		-
Home Affairs		89,210		89,210
Health and Family Plan		84,628		84,628
Environment &Social Dev		-	440	440
Education Train & Tech		10,393	1,824	12,217
Line and Phoenix		97,883		97,883
Public Service Comm		3,760	960	4,720
Overall Total		**302,111**	**3,224**	**$ 407,165**

Table 18b: Losses by Ministry

Overall these figures, indicate a serious breakdown in controls over public funds and property and that there has been very little improvement over the past several years.

18.3. Management of Stores

In my previous audit reports I have advised noted that there are sections of the Stores regulations that are inconsistent with other legislation and contemporary account practices, giving rise to confusion and inefficiencies.

Despite the fact that the Stores Regulation is outdated, Secretaries could show leadership over the management of stores, however this is not the case. This is compounded by the fact that there is very little accountability for the management of stores and in turn no consequences imposed upon Secretaries failure to discharge their responsibilities, non-compliance and poor practices.

18.3.1. 2008 Review of Stores practices

The breakdown in controls was also confirmed following a review of Stores practices at various Ministries undertaken this year, which found that Secretaries / Accountable Officers were not fulfilling their responsibilities under the Stores Regulations. In particular:

- There was little or no supervising stores and duties of staff involved[20],
- The Secretary was not undertaking independent checks,
- Stores register (asset register) were found to be not properly maintained. In particular additions and disposals were not adequately recorded in the Asset register,

20 Stores Regulation 161 clearly states that all Accountable Officers are directly responsible for the general supervision of stores and stores account under their control

- There was an absence of stores records maintained for expendable items,
- Regular checks of stores are not undertaken. [21]

MFED Board of Survey
MFED internal audit undertake annual BOS at Ministries. Upon review of the MFED files we noted that there were a number of anomalies noted particularly with regard to Appendix C Statement of deficiencies at Ministries.

Specifically many stores were not seen or located at the time by MFED staff and the Secretary was to review these and if necessary undertake an investigation and recommend write-off or other. Upon follow-up with a selected number of Ministries with deficiencies we noted that no action was undertaken with respect to the deficiencies, nor was there any follow-up by MFED staff. As indicated before if there is no accountability or consequences why would Secretaries be concerned about discharging their responsibilities.

18.3.2. Verification of Stores on Outer Islands

Verification of stores on outer islands is still non-existent and despite raising this concern in previous audit reports, no action to date has been taken[22]. As mentioned in my previous audit reports,

Currently Ministries do not have a list of stores for their divisions on the outer islands by which our audit staffs when auditing the outer islands can compare against division's stores registers.

Recommendations
Officers responsible for the losses and not found guilty by the court should be disciplined as suggested in FR 324 (1) (d).

The Stores Regulations should be vigilantly adhered to by the Responsible Officers, and failure to do so should result in disciplinary action.

The Accountant General should implement a cost effective system of verification of stores in the outer islands

MFED should look at including basic asset reporting into the annual accounts and this will amongst other things enhance accountability for Secretaries.

21 Stores Regulation 12 also states that Accountable Officers will not rely on Stock Verifiers or appointed Board of Surveys but shall occasionally, and no less than a year, check that all the stores under their control
22 the legal responsibility lies with the Accountant General in accordance with Chapter 9 of the Stores Regulation

19. Statement No XVI: DEVELOPMENT FUND

19.1. 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.

19.2. Overall Position of the Fund

The value of the Development Fund as at 31 December 2008 disclosed in Statement XVI is $9,312,953.35. This figure does not agree with the balance as per Statement VI nor includes amounts paid or received directly to individual Ministries. In kind aid is also not included contrary to contemporary accounting practices.

19.3. Bank Reconciliation

As in previous years the account could not be verified due to the absence of bank reconciliations.

19.4. Project Funds Not Under MFED Control

There are various project funds not under MFED control. These have arisen due to the following:

i. Donors are dealing directly with the Ministries' concerned and setting up bank accounts independent of the Government No.4 account,
ii. Government No. 4 account is being used as a transit account.

Donors' clear intention is to avoid unnecessary holdups on the projects, however, they should still be subjected to the same controls and monitoring as exists through No. 4 account.

19.5. General findings

My office also undertook a review of a number of development projects during the year that were reported to the respective donors and Ministries. Overall we found in a number of cases that project documentation, PVs and RVs could not be located. Greater care should be exercised over development projects to ensure records are maintained and made available for audit purposes.

Recommendations

- Bank reconciliations for the No 4 account need to be undertaken,
- Measures should be instigated to capture and report in - kind aid,
- All projects should come under the purview of the MFED, and
- Records should be safeguarded and presented for audit purposes.

20. Statement No XVII: SUSPENSE ACCOUNTS

Nil

21. Statement No XIX: CASH in TRANSIT

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 2008 the Cash in Transit had a net balance of $7,261,907.54 compared to the 2007 figure of $2,505,366.81 ($2,458,878.54: 2006, $3,018,751: 2005).

During the audit of the Cash in Transit account, irregularities such as missing RBC, omitted RBC and cash shortages were noted as follows.

- Omitted remittances totalling ($156,208.00)
- Misposting of $200,000.00 to Butaritari alc (M0033000008A) whereas it should be allocated under M0030000008A(N0#1account),
- Outstanding remittances totalling $65,507.50.

These are in addition to the prior year audit issues:

- Did not reconcile the account on a periodic basis,
- Could not provide the Outwards register for 2008[23],
- Anomalies with Fanning & Kiritimati.

Prior Audit Recommendation
MFED should correct the anomalies abovementioned and commence reconciliations as a priority.

The GOK do not actually have the cash, nor will it ever be received in the future. The account is grossly overstated by over $7 million dollars.

23 Upon discussions with the responsible officer we were advised that an Outwards register was established and being used for 2009

22. Statement No XX: RERF

22.1. Overview[24]:

The economic importance of the Revenue Equalisation Reserve Fund (RERF) to the people of Kiribati cannot be over-emphasised. 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.

22.2. 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.

However since 2003 the overall draw downs from the RERF (Including 2009 budget) is $167.25 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.

22.3. Findings

The findings that follow have been derived from discussions with MFED staff, review of MFED records and donor reports. Given some of these issues go back over a decade they have been presented with the view to informing Parliament and seeking urgent action from the MFED to improve governance and safeguard the RERF.

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.

The RERF rules provided to us from the MFED are dated 1983 and need revision to bring them in line with current thinking and contemporary practices,

Fund managers
MFED have fund management agreements in place with both HSBC and NIKKO that have as appendices: investment objectives: operating guidelines, client investment objectives, and the MFED rules. Apart from minor changes to the equity/cash mix and nominated currencies, the investment objectives: operating guidelines have remained relatively unchanged since 1996.

From the RERF Investment Committee minutes 1/08, AusAid will provide technical assistance with respect to the investment strategy of the RERF.
Committee: Terms of reference

24 Atoll Politics: The Republic of Kiribati Google books – chapter 14 Mr Teuea Toatu

The Client investment objectives attached to the fund managers agreements are extracts from sections 13(1) to (3) of the Public Finance (Control and Audit) CAP 79 and do not detail the primary purpose of the RERF, its objectives nor the roles and responsibilities of the committee.

A TOR has now been completed in 2009 following comments from the AG's office and refers to the objective as "To maximize the RERF growth for the balancing of the budget and for the benefit of the present and future generations".

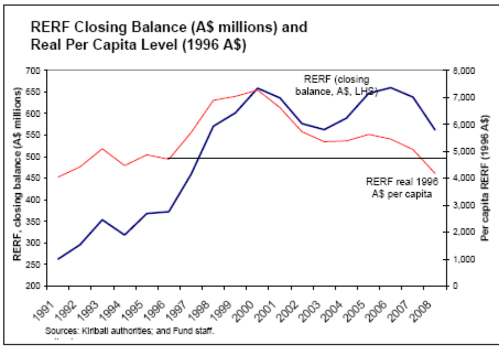
Whilst the TOR is a good start, further guidelines are needed regarding the control of the drawdown, drawdown guidelines and so forth.

Broad Performance of Fund[25]

RERF Assets, Selected Years

	1956	1979	1987-1991	1992-1996	1997-2001	2002-2007	2008
RERF Balance (A$ mn, eop)	0.6	68.0	262.0	371.8	635.9	637.4	561.6
Per capita RERF Balance (1996 A$, eop)	179.0	3393.8	4032.3	4703.4	6615.3	5051.8	4173.0
Average Drawdown (percent of GDP)	...	...	...	...	-3.0	-14.5	-15.7
Average Return (percent per year)	...	...	11.5	9.5	12.7	3.9	-7.7

The RERF has been significantly affected by the global financial crisis. In 2008, the capital loss in A$ terms was over 10 percent and drawdowns (for financing budget deficits) mean the per capita RERF balance dropped by around 20 percent in 2008 to around A$ 4,200 in real per capita (1996 A$) terms, which is more than 40 percent below its peak in 2000 and below the previously cited informal target of the per capita level in 1996[26].



Further work is required to detail the performance indicators and measures to be applied to the RERF.

Committee: Expertise

There is a need to enhance the expertise on the Committee to address governance issues and facilitate robust engagement with the fund managers.

At this stage a local has been identified and the IMF have been approached for an overseas adviser.

Other General Issues[27]

- Review existing guidelines for protecting RERF capital value and ensuring long-term sustainability of budget support.
- Improve public and parliamentary understanding of RERF performance

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25 Source IMF 2008 Mission Report
26 There is no mention of the 1996 policy decision in the formal rules, TOR or associated documents of the RERF.
27 Source MFED 2004 -07 Operational plan and IMF and ADB reports

- Consider legislative restructuring of RERF into a national reserve fund not accessible to governments without special parliamentary approval, feeding a government reserve fund accessible by normal budget appropriation process.

Finally the above issues raised have been detailed together in a request for Technical assistance. We have been advised by AusAid, that they are currently finalising the TOR for comment from stakeholders.

Overall Conclusion: overall we believe that the current documentation is out dated and gives the Minister, MFED staff and fund managers too much discretion with respect to the operation of the RERF. Amongst other things we would expect there to be a robust governance framework supported by a comprehensive set of policies, procedures and guidelines to support the operation of the RERF.

Recommendation

The Government's RERF Committee with the support of technical assistance should establish an action plan as a priority to address the issues raised.

To promote transparency and accountability the action plan and its progress should be reported to the Parliament on a regular basis.

23. Appendices

23.1. O/S Accounts: Statutory Corporations and Government Controlled Companies

Outstanding accounts 2009

AGENCY	Report Date	Overdue Accounts
Telecom Services Kiribati Limited	31-Mar	2009
Air Kiribati Limited	31-Mar	2006-09
Otintaai Hotel	31-Mar	2008-09
Central Pacific Producer Limited	30-Apr	2009
Atoll Seaweed Corporation	30-Jun	2007-08
Betio Shipyard	31-Aug	2006[28]
Bobotin Kiribati Limited	31-Aug	2008
Kiribati Shipping Services Limited	31-Aug	2008
Broadcasting Publication Authority	31-Dec	2006-08
Development Bank of Kiribati	31-Dec	2008
Kiribati Copra Society	31-Dec	2008
Kiribati Housing Corporation	31-Dec	2008
Kiribati Insurance Corporation	31-Dec	2008
Kiribati Port Authority	31-Dec	2008
Kiribati Provident Fund	31-Dec	2007-08
Public Utilities Board	31-Dec	2008

Table 23a: Outstanding 2009 Accounts

28 2006 account returned for resubmission

23.2. Loses of Public Funds & Stores: 1994-2006

YEAR	DETAILS		REMARKS
MINISTRY OF FINANCE & ECONOMIC DEVELOPMENT			
2003	Cheque collected and cashed by unidentified Person	378	Reported to the Police
2005	Shortage of revenue at customs office	1,499.97	Pending at AG's office
2007	Suspected fraud at Salary section	**7270.1**	No amendment found
2007	Alleged Fraud at MFED	**504**	Reported to the Police
2007	Alleged Fraud at MFED	**1,232.50**	Reported to the Police
		10,884.57	
MINISTRY OF NATURAL RESOURCE AND DEVELOPMENT			
2000	Loss of revenue collection at fish farm	874.3	placed under officer's personal advance
2001	Loss of revenue collection at Agriculture division	1,645.80	officer imprisoned on 21/11/05 therefore should write off.
		2,520.10	
MINISTRY OF TRANSPORT, COMMUNICATION & TOURISM			
1987	Bairiki P/office	2,758.09	Write off action requested
	Payment of telmo to unauthorised payee	600	Write off action requested
1988	Onotoa P/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	347.2	Write off action requested
1998	Cash shortage April 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 mail bags- ex Air Nauru 2/9	-	
2005	Suspected Fraud at Post Office Betio	31,500.00	Request for suspension on 50% pay sent at AG's office
2005	Suspected Fraud at Post Office Betio	7,584.90	as above
2005	Discrepancy on Abaokoro stamp imprest	300	
		59,968.26	
MINISTRY OF WORKS AND ENERGY			
1998	Alleged misuse of materials by the Chief Eng	3,202.80	Write off action requested
2007	Alleged misuse of Public Fund by Ag DS	31,200	
2008	Alleged fraud at MPWU		Reported to the Police
		34,402.80	
MINISTRY OF LABOUR, EMPLOYMENT AND COOPERATIVE			
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	
2001	Misuse of public fund at FTC		MFED to provide more info.
2006	Misuse of public fund		Pending at AG's office

YEAR	DETAILS		REMARKS
2008	Misuse of public fund		Reported to the Police
		3,050.00	
JUDICIARY			
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 AND PRISONS			
1991	Double pmt of Pension Imprest	6,272.91	Write off action requested
		6,272.91	
MINISTRY OF INTERNAL AND SOCIAL AFFAIRS			
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	
	Loss of Abaiang State and Island fund	8,913.39	Pending AG's office
	Loss of Butaritari Copra fund	21,637.70	Pending AG's office
	Loss of Abaiang Island fund	396.47	as above
		89,210.75	
MINISTRY OF HEALTH AND MEDICAL SERVICES			
2001	Misappropriation of entertainment funds	3,476.65	awaiting decision of PS, MFED whether police case or resolved
2004	Misappropriation of project funds	81,151.53	Case in the hands of police has yet to be finalized or sub to court
		84,628.18	
MINISTRY OF EDUCATION, YOUTH AND SPORT			
1993	Misuse of Gov Property and public fund		Write off action requested
2004	Alleged fraud and abuse of office at TTI	2,761.09	Reported to the Comm of Police
2005	Alleged Fraud at Kiribati Technical Institute	2,495.23	Pending at AG's office
2008	Alleged Fraud at Kiribati Technical Institute	5137.5	Case still with Police
		10,393.82	
MINISTRY OF ENVIRONMENT AND SOCIAL DEVELOPMENT			
1996	Alleged Misappropriation of Public Funds - Sales of Sport Equipment	$440.00	Write off action requested
		440	
Ministry of Line Phoenix Group			
2003	Alleged Fraud of Public funds	2,501.23	Reported to Police on 16/01/03
2004	Alleged embezzlement of Public funds	92,247.00	Report to Police Officer on ½ pay
2005	Loss of cash at wildlife unit	3,135.00	Pending at AG's office
		97,883.23	
Public Service of Commission			
2004	Alleged Misappropriation of Public Funds at PSC	4,720.00	Reported to Commissioner of Police 13/01/05
		4,720.00	
	Total Losses of Funds and Stores	**$ 407,165**	

Table 23b: Losses of funds and stores by Ministry