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Promoting Transparency and Accountability For The Parliament And People Of Kiribati

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File Ref. **Date:** 29 April 2013

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 2010 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.

There is a major change in the Part numbering of the Report with effect from 2010 Report, re list hereunder. Part I that normally covers "Statements i to xx" now becomes Part 2 while "Revenue and Expenditure of Government" becomes Part 1 of the Report. This is aligned with the flow of reading the accounts and the manner in which PAC conducted its Inquiry with Government Ministries.

- 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

FOREWORD

The audit of the Government Annual Accounts year ended, respectively, 31st December 2010 was finally completed in February 2013.

The 2010 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. However the presentation of such annual accounts was not in full compliant with the International Financial Reporting Standard requirements nor any other internationally recognized reporting standard. For instance fixed assets purchased during the year were not accounted for nor reflected in the annual accounts. Outstanding Payments to suppliers and Receipts from customers were also not being properly accounted for.

This is the first time the scope of our audit was extended to cover also activities funded by projects that had never been covered in any of past audits though such had always been part and partial of the approved budget. This year, as a starting point, we had done sample testing on some transactions with colossal sums. The outcome confirms the need for full auditing in the future.

Despite above comments, it is, however, pleasing to note an injection in the Reserve Fund of $5.9m and a major improvement in the overdraft level which, as per bank details, had considerably reduced from $5.9m down to $3.2m. There was also a notable improvement in the collection from fishing license.

Matereta Raiman Date

Auditor General

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OPINION OF THE AUDITOR GENERAL
ON THE ACCOUNTS OF THE GOVERNMENT OF THE REPUBLIC OF KIRIBATI
FOR THE YEAR ENDED 31 DECEMBER 2010

Audit Opinion

I have audited the Public Accounts for the years ended 31 December 2010. 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 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 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, 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 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 neither project funds received outside of the Government No. 4 Account nor opening balances of such at the beginning of the year 2010.

Qualifications

1) Outstanding issues regarding the 2009 Annual report (refer Appendix One, A1.2)
2) Anomalies between MFED and Ministries major revenue figures and missing cash book for custom at Air-port Bonriki & post office (refer section 3)
3) Lack of reconciliation and control weaknesses over Other government expenditures account (refer section 4.2)
4) Unavailable documents for Special fund balance (refer section 5)
5) 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 (refer section 6)

6) Incorrect advance account balances (refer section 7)
7) Unrealistic balance for sundry deposit reported as positive $8.9 million (refer section 9)
8) Non-availability of bank audit certificate to support Contingent Liability balances(refer section 10)
9) Misallocation of interest gains for Rothschild and sons investment posted under consolidated fund (refer section 11.1)
10) Incorrect brought down balance for Loan accounts under Public debt (refer section 13.1)
11) Control weaknesses and incorrect balance for Arrears of Revenue (refer section 14)
12) Un-reconciled items for the No.1 and No.4 accounts not reported under Suspense account instead disclosed under sundry deposits. (refer section 17)
13) Irregularities in the Cash in transit figure (refer section 18)
14) Irregularities in the Local Contribution to the Development Fund (refer section 16)
15) Irregularities in the value of the RERF as at 31 December 2010 (refer section 19)

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 financial statement 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 Annual Account as at 31 December 2010 and the results of its operations and its cash flows for the year then ended.

Matereta B Raiman
AUDITOR GENERAL

COMPLIANCE WITH LEGISLATIVE REQUIREMENTS

Legislative compliance systems

We reviewed the systems and procedures you use to identify and comply with legislative requirements. There is no formal system in place for monitoring compliance and reporting thereon.

We recommend that the government look into putting in place a system to monitor compliance of key legislation and also ensure processes are in place to report breaches in legislation through to the governing body.

Breaches of significant legislation

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

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

- Section 36(1)

Under this section *'The accounts of the receipt of revenue by the Departments of Government and the accounts of every receiver of money which is by law payable to the Government shall be subject to examination by the Director of Audit in order to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue, and the Director of Audit shall satisfy himself that any such regulations and procedures are being duly carried out'*.

The audit had come across an issue with taxation office where the audit was unable to obtain supporting documentations for the assessment of taxation income especially for private sectors. As a result minimal audit testing was performed for taxation income. *(Refer Section 1.3.3. PART 1, Taxation Revenue)*

Non- compliance with Financial Regulations (FR)

- Chapter 13, section 262 (3)

Secretaries authorized to maintain Advance accounts shall keep such records as the Accountant General may direct and shall reconcile the balances with the Accounting Division accounts as directed by the Accountant General which shall be not less frequently than six monthly.

The audit noted that no reconciliation of advance account had been performed during the year as clearly indicated by a huge positive balance and without any recovery from those having had an advance from Government, section 262 (2).*(Refer Section 5 Advances from the Consolidated Fund)*

2010 ANNUAL ACCOUNT SCORECARD

	ASSETS	2009	2010	2009 Rating	2010 Rating
	INVESTMENTS				
XX	Investments with HSBC	289,453,052	298,529,501	**B**	**C**
XX	Investments with NICAM	281,460,435	282,387,029	**B**	**C**
XI	Other Investments	823,360	1,560,037	**C**	**C**
		571,736,847	**582,476,567**		
	CASH				
VI	Cash on Hand & bank	17,935,442	4,527,937	**D**	**D**
XIX	Cash in transit	2,414,343	248,994	**D**	**D**
		20,349,785	**4,776,931**		
VII	**ADVANCES**				
	Other Governments	7,066	7,066	**C**	**C**
	Public Officers	-8,429,837	10,067,025	**D**	**D**
	Sundry Advances	1,824,888	1,720,727	**C**	**D**
		-6,597,883	**11,794,818**		
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-905,600	-1,134,598	**D**	**D**
	Public Officers	87,460	86,956	**C**	**C**
	Sundry Deposits	-3,254,310	8,962,032	**D**	**D**
	Telmos	1,529,010	-4,279,481	**D**	**E**
		-2,543,440	**3,634,909**		
	NET TOTAL ASSETS	**582,945,310**	**602,683,225**		
II	Consolidated Fund	7,877,439	8,416,098	**D**	**C**
XVI	Development Fund	3,785,527	13,245,321	**D**	**C**
XX	RERF	570,913,487	580,916,530	**B**	**B**
V	Stabex	-2,965,782	-3,186,006	**D**	**D**
V	Other Special Funds	3,334,639	3,291,282	**B**	**B**
	Grand Total	**582,945,310**	**602,683,225**		

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 to the contents of the Annual account 2010 provided by MFED (Balance Sheet). Recommendations are given in this report which aimed at improving programs and operations and lend to providing better service to the public are the bottom lines of our audit work.

Most of the issues were repetitive indicating a slow improvement in the system. We are concerned that such issues and recommendations should be considered more seriously. As government is operating on cash basis there has to be a 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. 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.

ACKNOWLEDGEMENT

First of all we would like to take this opportunity to convey our sincere appreciation of the invaluable contributions and assistance rendered by staff of the Ministry of Finance Economic Development for the completion of this Audit Report. Despite many issues encountered during our audit work we noted quite substantial improvements in some areas.

Our appreciation is also extended to senior officers from each division in the accounting unit for their availability at short notice called interviews and their tireless efforts in tackling the questions related to our audit work.

We also sincerely thank the Accountant General, Mr. Tekiera Ruaia, for his time and effort in completing and submitting the Annual accounts on a timely manner.

It would be a remiss if I do not recognize and greatly appreciate the hard work of my staff (KNAO) whose efforts and dedications without which I would not be able to discharge my legislative responsibilities and complete this audit report.

1. Statement I: Balance Sheet

1.1. Assets and liabilities

At the end of 2010 the Government of Kiribati held the following assets and liabilities:-

Stat		2008	2009	2010	10 Inc/(Dec)
	ASSETS				
	INVESTMENTS				
XX	Investments with HSBC	281,829,824	289,453,052	298,529,501	9,076,449
XX	Investments with NICAM	279,771,276	281,460,435	282,387,029	926,594
XI	Other Investments	794,163	823,360	1,560,037	736,677
		562,395,264	**571,736,847**	**582,476,567**	**10,739,720**
	CASH				
VI	Cash on Hand & bank	1,105,957	17,935,442	4,527,937	-13,407,505
XIX	Cash in transit	7,261,907	2,414,343	248,994	-2,165,349
		8,367,865	**20,349,785**	**4,776,931**	**-15,572,854**
VII	**ADVANCES**				
	Other Governments	7,066	7,066	7,066	0
	Public Officers	10,140,865	-8,429,837	10,067,025	18,496,862
	Sundry Advances	1,465,080	1,824,888	1,720,727	-104,161
	Total Assets	**11,613,011**	**-6,597,883**	**11,794,818**	**18,392,701**
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-1,121,502	-905,600	-1,134,598	228,998
	Public Officers	-22,233	87,460	86,956	504
	Sundry Deposits	-2,888,593	-3,254,310	8,962,032	-12,216,342
	Telmos	-644,482	1,529,010	-4,279,481	5,808,491
		-4,676,865	**-2,543,440**	**3,634,909**	**-6,178,349**
	NET TOTAL ASSETS	**577,699,276**	**582,945,310**	**602,683,255**	**19,737,915**

Table 1a: GOK Assets and Liabilities

1.2. Net Total assets

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

Title	2007	2008	2009	2010	INC/(DEC)10
Consolidated Fund	15,677,968	9,329,496	7,877,439	8,416,098	538,659
Development Fund	11,377,479	9,312,953	3,785,527	13,245,321	9,459,794
RERF	637,335,602	561,601,101	570,913,487	580,916,530	10,003,043
Stabex	-3,608,211	-5,430,692	-2,965,782	-3,186,006	-220,224
Other Special Funds	2,938,017	2,886,418	3,334,639	3,291,282	-43,357
Grand Total	**663,720,855**	**577,699,276**	**582,945,310**	**602,683,225**	**19,737,915**

Table 1b: GOK Net Total assets

The Realized Net Total Assets has been declined from 2007 to 2008 while increased slowly by $5.2 million in 2009 and rapidly up by $19.7 million in 2010. Hence this huge increase in 2010 related mainly to the increase in value of Development fund and investment of over $9 and $10 million[1] respectively.

At the outset however, the above net total asset balance did not account for previous audit adjustment together with the audit adjustment for 2010 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 2010.

Based on the above, the reader of this report is kindly reminded that the accuracy of the figures reflected above is not guaranteed.

[1]The RERF is discussed at Section 19

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.

2.2. Balance of the Fund

The table below shows the balance of the fund, for comparison, over the past three years.

Title	**2007**	**2008**	**2009**	**2010**
	$	**$**	**$**	**$**
Balance Brought Forward	-4,856,558	15,677,968	9,329,496	7,877,439
Add:				
Total revenue collected	106,370,995	92,359,787	87,580,090	95,736,073
Sub-total	**101,514,437**	**108,037,754**	**96,909,587**	**103,613,512**
Less:				
Total Expenditure incurred	85,836,469	98,708,258	89,032,148	95,197,414
Excess/(Deficit) of Actual Revenue Over Expenditure	**15,677,968**	**9,329,496**	**7,877,438**	**8,416,098**
RERF drawdown	**45,000,000**	**25,000,000**	**18,000,000**	**17,300,000**
Adjusted Revenue	**61,370,995**	**67,359,787**	**69,580,090**	**78,436,073**
Adjusted Deficit	**-24,465,474**	**-31,348,471**	**-19,452,058**	**-16,761,341**

Table 2a: Consolidated Fund balances 2007-2010

The above table shows balances in the consolidated fund for the years 2007 to 2010. The 2010 account reflects an overall deficit of expenditures over revenues which include the RERF drawdown[2]. When excluding the RERF drawdown from the revenue figures reflects an approach where each year the GOK spent far in excess of what was actually generated as income or revenue. In the longer term in the absence of other strategies, this clearly is not (refer section 19).

The performance of the budget in the order of Ministries with their expenditures, collections and other commitments in 2010. (Refer Part 1 of this report).

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.

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

SIGNIFICANT MATTERS ARISING FROM THE AUDIT

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

3. Statement III: Government Major Revenues

Recommendations

- It is recommended that the MFED and the concerned Ministries needs to reconcile their revenue accounts and maintain adequate supporting records.
- MFED should ensure that the posting to the Attaché system is up to date which means on a daily basis as and when revenues are received.
- Responsible officers should be held accountable for failing to keep records as required under section 16& 17 of Cap 79.
- Ministries revenue collectors have to maximize their revenues as already pledged during budget preparation (those responsible for revenue under collected)

Findings and analysis

3.1. Estimate against actual revenues 2009 & 2010

Revenues	2009		2010		2010 Variance
Title	Estimate	Actual	Estimate	Actual	Act vs. Estimate
Fishing License	24,000,000	29,516,146	30,500,000	41,707,580	11,207,580
Import Duty	19,800,000	15,466,470	17,798,909	14,799,253	-2,999,656
RERF		18,000,000	15,000,000	17,300,000	2,300,000
Company taxation	4,500,000	7,007,670	7,000,000	7,345,675	345,675
Hotel tax	50,000	103,416	100,000	77,601	-22,399
Dividends	1,100,000	-	1,300,000	2,672,160	1,372,160
Interest on Consolidated Fund	-	19,356		219,299	219,299
Personal tax	7,100,000	6,157,307	5,355,000	6,053,389	698,389
NASDA	1,651,800	1,573,918	1,600,000	1,453,389	-146,611
Cruise Line Revenue	500,000	65,125	206,000	-	-
Air Space usage fee	217,000	-	400,000	632,694	232,694
Sub- Total	**58,918,800**	**77,909,406**	**79,259,909**	**92,261,040**	**13,001,131**
Misc Revenue	3175411	9,670,684	4,340,728	3,475,033	-865,695
Total	**62,094,211**	**87,580,090**	**83,600,637**	**95,736,073**	**12,135,436**
Adjusted less RERF		**69,580,000**		**78,436,073**	**10,701,131**

Table 3a Estimate against actual revenues 09 & 10

The figures reflect an overall revenue result for the past three years. Actual Revenues including RERF drawdown of $77.9 million in 2009 had increased by 18% to $92.3 million in 2010. This is better than revenue collections in previous years.

3.2. Actual Revenues from 2008 to 2010

	2008 Actual	2009 Actual	2010 Actual	Change
Fishing License	31,240,228	29,516,146	41,707,580	12,191,434
Import Duty	16,078,071	15,466,470	14,799,253	-667,217
Personal tax	7,630,635	6,157,307	6,053,389	-103,918
Dividends	1,027,986	-	2,672,160	-
Cruise Line Revenue	206,915	65,125	-	-

Table 3b Actual revenues 2008-10

As reported in the 2010 Annual Account, both the Import Duty and Personal tax had reduced when compared to 2009 while actual fishing license soared by 41%. As explained by the officer in charge, the increase of $12.2 million for fishing license resulted from the growing number of fishing boats or companies fishing within our EEZ (Economic Exclusive Zone). As reported, during the year more overseas fishing companies were willing to fish or renew their licenses.

3.3. Major Revenue Reconciliation 2010

Highlighted in the table below is the comparison of revenue records as at 2010 between MFED and concerned ministries or divisions.

Major Revenues	MFED	Min Balance[3]	Variance
Fishing License	41,707,580	41,677,089.96	30,490.04
Import Duty	14,799,253	13,105,888.14	1,693,364.86
Company taxation	7,345,675	8,297,333.28	951,658
Hotel tax	77,601	75,024.76	2,576
Personal tax	6,053,389	6,134,558.22	346,107.02
NASDA	1,453,389	NA	NA
Cruise Line Revenue	0	35,720.00*	35,720.00
Total	**71,436,887**	**69,325,614**	**3,059,916**

Table 3c Revenue reconciliation 2010

3.3.1. *Fishing License*

The audit noted that there is an improvement in the reconciliation system between MFMRD and MFED during the year. This was clearly indicated by the above small variance of only $30,490.04. Although the variance was immaterial, the only issue was that MFMRD was reluctant to provide further details of the fishing license they received. As a result we were unable to comment on the variance stated above.

[3] Refer to Appendix 6, Major revenues summary 2010 (extracted from divisions record)

3.3.2. *Import Duty*

Of significant concern was a variance of $1.69 million between the Custom Office records and MFED. The above huge variance was caused mainly by the lack of revenue reconciliation and poor recording as evidenced by cash books that are not well maintained. Import duty revenue was generated from three departments such as custom Office Headquarter (Betio), Airport (Bonriki) and the Post Office (Bairiki). However we were only able to acquire the Custom HQ Betio cashbook 2010 amounted to $13m while the Custom department at Bonriki and the Post office Betio were unable to locate their cashbooks. Given the above significant variance and the unavailability of concrete evidences (cash books), we were unable to verify the balance for import duty disclosed in the annual account.

3.3.3. *Taxation Revenue*

The above table revealed small variances for Hotel and Personal taxes while company tax had a huge variance of $951,658. Despite having summary records provided by the taxation office, the audit could not simply confirm such figures since the supporting documentations for private businesses were not released by the tax office. A discussion with the Commissioner of Tax, he mentioned that they would not able to provide information for private businesses reasoning that he was trying to protect the confidentiality, privacy or secrecy of the private business accounts. Unless written legal confirmation or advice from the AG's office is obtained, such information would not be released. In that case we were not able to confirm whether company tax was fairly stated in the account.

3.3.4. *NASDA fees*

Per discussed by the responsible officer, the revenue type NASDA had been replaced or changed to JAXA on 1st October, 2003. . Until now NASDA revenue has still not been replaced by JAXA. She further explained that revenue generated from JAXA are Lease and Service fees from Downrange Agreement and Indirect Operation cost generated from Air Service Agreement (Kiritimati). Such agreements could not be easily obtained. No further testing performed due to the unavailability of agreements, accounting records and supporting documentations.

3.3.5. *Cruise Line Revenues*

This revenue refers to fees collected from each passenger on cruise lines for the Line group islands at $10.00 per head. According to a procedure the collection of these fees was performed by the agent on behalf of the Ministry. The amount of revenue depends on a number of ships arrived per year. When the cruise ship ceased visiting the island, cash collected from such activity was never realized.

After a review the audit noted that there is no balance disclosed in the account for 2010 while the available record from Ministry of Tourism reported that $35,720 was collected from three ships. This amount is less than the collection in 2009 of $65,125. As per explanation by the responsible officer, the ministry record is not up to date yet he believed that many ships had arrived during the year but no returns submitted by the agent. Upon enquiry to the agent, there is no record or supporting documents provided. In this case we could not satisfy with a nil balance disclosed in the account.

**Please note that Cruise Line Revenue is not included amongst Major revenue summary 2010 since the record given is not updated by the concern ministry.*

Management comment

4. Statement IV: Expenditures

Recommendations

Reconciliations should be performed as a priority between MFED and respective ministry divisions.

Specific Recommendations:

- MFED needs to include the avenue of transferring funds remaining under Special Funds into the Consolidated Fund (as this could dampen the Overdraft level with in the No. 1 Account)
- 4.1. Local Contribution to the Development fund should be well managed and properly recorded.
- 4.2. MFED should review repayment amounts for such loan accounts under debt servicing and adjust them accordingly.
- 4.3.1. MISA needs to update the recording of support grant in the cash book for audit verification and other management purposes.
- 4.3.2. MISA needs to follow up on supporting documentations for Senior Citizens Benefit allowances that should be returned from the Outer Island councils.
- 4.3.3.On an annual basis Land department needs to review the total amount of land rents prior payments to land owners or beneficiaries.

Findings and analysis

	2008	2008	2009	2009	2010	2010	VARIANCE	
Title	Estimate	Actual	Estimate	Actual	Estimate	Actual	UNDER	OVER
Contribution to Dev Fund	570,816	570,816	30,000	0	7,111,067	1,424,145	5,686,922	
OB	1,083,617	1,004,894	1,107,353	1,120,686	1,040,790	1,064,690		(23,900)
PSO	1,052,441	1,049,592	1,064,281	1,084,064	648,918	647,918	1,000	
Judiciary	1,435,946	1,341,353	1,462,396	1,478,011	1,455,221	1,477,883		(22,662)
Police & Prisons	6,627,210	6,602,774	6,719,915	6,705,689	6,755,810	7,232,178		(476,368)
PSO	214,928	219,601	217,923	204,895	208,424	243,044		(34,620)
FA	1,104,618	974,586	1,127,964	1,203,715	1,153,473	1,222,957		(69,484)
MISA	3,150,355	3,102,545	2,830,033	2,801,857	2,658,588	2,615,055	43,533	
MELAD	2,692,155	2,586,153	2,733,389	2,707,950	2,754,554	2,707,646	46,908	
Parliament	2,266,482	2,422,081	2,360,475	2,812,012	2,412,759	2,570,464		(157,705)
MCIC	1,115,966	1,062,923	1,117,259	1,053,836	1,084,542	1,188,921		(104,379)
KNAO	591,562	563,729	603,182	592,939	592,582	603,684		(11,102)
OAG	457,710	409,640	466,779	423,099	471,275	477,596		(6,321)
MFMRD	1,902,127	1,763,039	1,942,970	1,885,989	1,851,366	1,794,694	56,672	
MHFP	14,890,094	17,640,681	14,606,800	14,715,799	14,537,255	14,311,376	225,879	
MOE	21,135,346	20,641,690	21,532,278	21,634,323	16,901,716	16,920,584		(18,868)
MCTT	3,387,735	3,370,330	3,443,606	3,285,478	3,473,173	3,481,664		(8,491)
MFEP	2,473,656	2,562,159	2,541,401	2,624,340	2,257,508	2,606,476		(348,968)

MWE	2,748,731	2,448,998	2,811,911	2,697,314	2,543,688	2,463,920	79,768	
MLHRD	3,166,093	2,994,140	3,210,164	3,073,034	3,130,978	3,178,146		(47,168)
MLPID	3,293,100	3,339,406	3,403,741	3,397,085	3,349,881	3,312,874	37,007	37,007
Debt servicing	656,750	8,200,848	2,532,998	2,940,796	2,283,929	9,764,545		(7,480,616)
Other Gov'tExp	13,892,278	13,836,278	12,434,080	13,206,535	13,724,109	13,887,791		(163,682)
Total	**89,909,716**	**98,708,256**	**90,300,898**	**91,649,446**	**92,401,606**	**95,198,251**	**6,177,689**	**(8,937,327)**

Table 4a Government expenditures 08-10

Please note that individual Ministry expenditures had been discussed in detail at part 1 of this report.

4.1. Contribution to Development Fund

The contribution to the Development Fund was financed from the No.1 Bank Account. The actual expenditure as per table 4a above represented the actual withdrawal from the No1 Account which should also match with the receipt of the Kiribati Government local contribution to development fund. However the actual expenditure and the receipt of Kiribati Government[4] were differed by only $215 (i.e. $1,424,360-$1,424,145). Further, the actual expenditure of $7,832,791.4[5]exceeded the total receipt by $6,408,646 ($1,424,145-$7,832,791).Balances in Special funds, per section 107 of Constitution, shall be retained in the special fund. Refer Appendix 4, Schedule 2, sections 3 (1) and (2).

The above differences distorted the overall actual position of Development Fund balance and at the same time understated the Consolidated Expenditure for 2010.

4.2. Debt Servicing

Debt servicing is known as any urgent incurred expense which has been budgeted for by government at a given year. Highlighted in the table above the movement of actual debt servicing between 2009 & 2010 has been significantly increased by $6.8 million hence had exceeded budget as well by $7.48 million in 2010.

According to a management report 2010 the following expenditures (Refer table below) are forming part of debt servicing:

30 Debt Servicing	**Budget**	**Actual**	**(Over)/Under**
01 EIB Loan 70372	-	240	(240)
02 ADB Loan No. 281	71,000	14,188	56,812
03 ADB Loan No. 724	50,000	34,651	15,349
04 ADB Loan No. 786	72,000	23,975	48,025
05 ADB Loan No. 922	35,000	78,919	(43,919)
06 ADB Loan No. 1039	18,000	28507	(10,507)
07 ADB Loan No. 1648	436,000	375,035	60,965
08 Other Financing comm&int cha	1,601,929	3,309,030	(1,707,101)
72 Deposit to RERF	-	5,900,000	(5,900,000)
Total	2,283,929	9,764,545	-7,480,616

A review of the account indicates the following issues:

[4] Refer to page 71 of 2010 Annual Account
[5] Refer to page 108 of 2010 Annual Account

EIB Loan 70372 repayment amounted $25,462.97 on PV 155/10 has been misallocated and posted under code 08 Other Financing Commission and interest charges.

- The audit also noted that the above repayment for EIB loan has been incorrectly stated on a GL by 25,040.83 resulting to a variance of $422.14
- PV 146/10 amounted 24,518.35 repayment for ADB loan 922 had been incorrectly posted as 31,083.09 on a GL resulting to a variance of $6,564.74
- Code 30-72 amounted $5.9 million is a deposit back to the RERF which has not been budgeted for. The audit found out that this deposit had been double entered in the Annual account as it already accounted for under investment and as well under debt Servicing. There was also a withdrawal from IBD of similar amount the result of which had left IBD with NIL balance.

4.3. Other Government expenditures:

In 2011 Actual other government expenditures was significantly down by$5.3 million which is very satisfactory in comparison to 2010 account.

Expenditures	Budget	Bal per MFED	Bal per Division	(Over)/Under Bud vs. MFED	Variance MFED vs. Division
Support Grants	1,220,000	1,189,722	906,954.00*	30,278	(282,768)
Council charges	99,000	133,999	?	(34,999)	?
Senior Citizens Benefits	1,068,000	1,032,828	1,020,300	35,172	(12,528.00)
Land Rent	2,427,782	2,144,468	2,037,339.09	283,314	107,128.91

Table 4b other gov't expenses 2010

4.3.1. *Support Grants*

Support grant refers to total budgeted amount granted to island councils by the government at a particular year. According to a procedure the amount of grant varies amongst island councils depending on the number of population each island has. The bigger population is the higher the grant to receive. Hence there are two installment payments made in 2010. (1st& 2nd Half)

*A balance in 2010 of $906,954 per confirmed from MISA is not reliable given that the cash book is incomplete as there are some payments for island councils are not recorded. In this respect we could not confirm whether the amount for support grant has been stated correctly in the account.

4.3.2. *Senior Citizens Benefits (SCB)*

Senior Citizens Benefits an allowance of $40 per month paid individually to elderly people reaching 70 years and above which is controlled by the MISA. In comparison to budget SCB is very satisfactory as it does not exceed the budget by an insignificant variance of $12,528 between the Ministry record and MFED account.

Other issues:

- Some SCB allowances were paid through the State-fund account and such returns should be sent to MFED. *'Our concern is that MISA did not reconcile its records with MFED '.*
- Total amount of $30,280 for unlisted warrant of which $20,680 were not returned. Per explanation by the responsible officer, she had followed up these unreturned warranted amounts to MFED but no records of existence. Since there is no evidence to prove whether the $20k warranted amount actually returned then we conclude that the control and follow-up procedures within the Ministry is not that satisfactory.

4.3.3. *Land Rent*

The audit noted a variance of $107,128.91 between the Lands Department and MFED records. (Refer table above) Such variance had been resulted because of the system control weaknesses as follows:

- As per explanation by the officer in charge, the variance would be a result of the unknown unaccounted DWs which have been raised by the Land Lease section.
- Another reason is that the land rent PV register is not up to date and lack of reconciliation between MFED and Land Department
- Filing system at the Lands department is not that satisfactory as the responsible officer hardly locate DWs therefore we are unable to confirm the DW amount sent to the outer islands.

Other findings:

The audit revealed an amount of $84,992.48 not yet returned from Kiritimati, Tabuaeran, Teraina and Fiji. As we follow up to the Land Office, such returns were directly sent to MFED. Although MFED examine officers stated that in prior practice the Line and Phoenix returns were compiled by the Lands Office in Kiritimati while recently in 2011 onwards, all returns are sent to the Lands Department and MFED on South Tarawa.

Management comment

5. Statement V: Other Special Fund balances

Recommendation

- (5.1.)MFEP should disclose Development fund and Plant & Vehicle fund under Special fund balances as in accordance to Cap 79, section 10 (2) and Cap 95A.
- (5.2.) MFED should clear off or not reflect the amount of Coinage from Special fund balances
- (5.3.) Supporting documents should be provided during the audit for verification of receipts and payments
- (5.4.) MFED has to ensure that a submitted report by the agent should be well supported with a list of individual names and signatures being paid for recycling.

Findings and analysis

Special Funds balance[6] as at 31 December 2009 and 2010 are credit balances of $368,858 and $105,277 as detailed in the table below.

Title	**2008**	**2009**	**2010**	**2010 Inc/(Dec)**
Coinage	-312,863	-318,983	-342,436	23,453
Kaoki Mange Fund	-222,446	-149,816	-105,844	43,972
Import Levy Fund	319,636	-40,040	-146,290	106,250
Stabex	-184,929	-188,649	-60,816	-127,833
No.6 Stabex Fund	1,465,785	-512,506	-376,314.32	-136,192
Local Stabex Fund	4,149,837	3,666,937	3,623,136	-43,801
Leper Trust	-5425	-6,496	-9,996	3,500
Dai Nippon Causeway	-2,306,944	-2,460,926	-2,620,180	159,254
Escrow Account	-358,377	-358,377	-66,537	-291,840
Grand Total	**-2,544,274**	**-368,858**	**-105,277**	**-263,237**

Table 5a Special fund balances 08-10

The value of the Fund as at December 2010 decreased significantly by 71% when compared with 2009. This is due to the positive balance of the Stabex Fund i.e. Stabex plus No.6 & Local Stabex of $3.19m (2009: $2.96m).

5.1. Compliance Disclosure

Under Cap 79, section 10 (2) Development Fund is a Special Fund which is disclosed separately as per Statement XVI instead of being disclosed in the above table. It is also the case for Plant & Vehicle fund which is one of the Special funds as in accordance to Cap 95A and not even reported amongst special funds.

5.2. Coinage

As agreed and as already recommended in prior years this balance should be cleared off and not be reflected in the account yet still appeared in the 2010 account.

[6]Refer Appendix 7 for carried down Special fund balances.

5.3. Import Levy Fund (ILF)

This account records all receipts and payments related to freighting of imported food& non-food items. ILF receipts are collected via custom division by charging import levy to businesses importing these goods. On the other hand payments are paid as subsidy to businesses for being a refund on transporting these food items to outer islands or freighting of local produce i.e. banana & pumpkin from outer islands to Tarawa.

Opening balance	(40,040.04)
Total receipts	(2,805,982.91)
Total payments	2,699,733.42
Closing balance	-146,289.53

- There is no disbursement amount from the World Bank in support for ILF refund in 2010
- Unsupported Revenue Vouchers(RVs) amounted $137,351
- Unavailable supporting documents for Payment Vouchers amounted $195,979.60

5.4. Kaoki Mange Fund

Kaoki Mange is one of the special funds operated under an agreement between the Government (MELAD) and System operator (agent) and is established under Waste Material Recovery Act 2004 for providing deposits and refunds to be paid on specified materials. In general 'Kaoki Mange fund' records all the receipts and payments for recycled materials (both aluminums & plastics) such as cans, rubber bottles and batteries for vehicles which are imported from overseas. Under this fund, a system operator is responsible to pay out refunds on these materials, crushing and exporting those materials as stipulated under the Agreement.

5.4.1. *Revenues*

Revenues are collected by the custom division based on the number of imported recycle materials. Apart from charging import duty, Custom division imposes a charge known as 'package deposit' (code: F0070000030A) to any business or companies importing those specified materials. The amount of charge is calculated at 5 cents for each can while $5.00 for each vehicle battery.

5.4.2. *Payments*

The system operator (agent) paid 4 cent for each item recycled while 5 cent shall be paid out of the special fund to the system operator. An agent shall submit a financial report to MFED concerning the refunds made and numbers of items refunded, using the provided form on a weekly basis.

In practice the balance of the fund at the end of each financial year should not be nil although credit in nature meaning that there is a remaining balance on hand. This is due to the fact that not 100% imported recycled materials could be returned for crushing and exporting. Some of them may be damaged or even lost in any circumstances prior recycling.

Reported by MFED the value of fund in 2010 decreased by some $105,844 and this merely indicates an increase in refund payment or the growing number of recycled materials in comparison to prior years.

5.4.3. *Audit Review*

After examination of the account the audit concerns that the following issues should be noted.

- Unavailability of PVs and RVs amounted to $75,776.05 and $16,723.10 respectively
- A submitted financial report to MFED by the system operator is not well supported to attach individual names with signatures being paid for refunds hence reimbursement has been paid for by MFED.
- Unable to access records from the system operator for comparison with Finance records
- Site visiting of Material Recovery Facility at Betio, the audit noted that a huge number of pile up materials are being stored without any ideas on how long they have been put aside to await crushing and exporting.

Management comment

6. Statement VI: Cash on hand and at bank

Recommendations

Bank reconciliations should be implemented as a priority for each individual bank account& supporting documentations should be provided during the audit for verification purposes

- (6.1.) MFED should review those noted un-presented cheques and deposits in transit and to adjust their figures accordingly.
- (6.2.) MFED should again follow up with Taiwan embassy about this $1 million to find out any explanation about this amount. An adjusting entry should be made to cancel or clear out this amount from those deposits in transit
- (6.2.) MFED should provide supporting documents for the PPI amount mentioned below.
- (6.3.) It is recommended that Finance should properly support the JV against the adjustment they had made
- (6.4.) Finance should review the cash local account and adjust the differences noted between Cash book, GL and Annual Account.
- (6.4) Finance should examine the state fund account properly and send queries to any sub-accountant officer if they detect errors
- (6.4.1) Accountant General has to ensure that BOS report is submitted and signed by members of the Board.

Findings and analysis

In 2010 Cash on hand and at Bank balance had decreased by 75% to $4.5 million. Bank reconciliations have been completed since 2009 and 2010 however we still cannot place reliance on these figures since there are still deficiencies and anomalies exist in the accounting records and systems.

	2009	**2010**	**2010 Inc/(Dec)**	**Last complete bank Reconciliation**
BANK OF KIRIBATI				
Betio PO Reimburse clearing	(220.00)	-		
NO 1 A/C	(5,970,024.78)	(3,206,853.94)	2,763,170.84	2010
IBDs with BOK Ltd	4,730,000.00	-		N/A
Kiribati Charter Operations	(1,673.43)	-1,673.43	No change	N/A
Kiribati High Com Bank a/c	339,237.07	284,668.63	-54,568.44	Never
Met Office A/C 819328	20,075.00	20,075.00	No change	N/A
No. 4 Account	29,269,840.02	3,224,096.74	-26,045,743.28	2010
No. 5 Account (Kiritimati)	(9,275,846.06)	4,093,828.96	13,369,675.02	2010
No. 6 Account (Stabex)	(1,482,254.78)	4,938.91	1,487,193.69	2010
	17,629,133.04	**4,419,080.87**		
OTHER				
Sub-Accountants	250.00	250.00	No change	
Cash - Local Gov	269,088.61	71,635.92	-197,452.69	
Agents	36,970.56	36,970.56	No change	
	306,309.17	**108,856.48**		

TOTAL per Balance Sheet	**17,935,442.21**	**4,527,937.35**	**-13,407,504.86**	

Table 6a Cash at bank & on hand 2009 & 2010

6.1 Government of Kiribati No. 1 account

Regarding the above table it is noted that the overdraft level was down by 2.7 million in 2010 which is good compared to the 2009 account. The drop of overdraft relates to the collection of excess revenues of some $12 million by Ministries which far exceeded budget (Refer Section 3.1). However we cannot yet rely on the above figures due to the following issues:

i. Despite having prepared the bank reconciliation 2010 the audit noted that reconciliation is still not yet done on a monthly but on a yearly basis.
ii. Bank reconciliation is not reviewed by the most senior officer.
iii. There are un-presented cheques amounted $17,962.00 and deposit in transit of$51,437.11 which are related to the 2011 account but have been noted as outstanding amounts in 2010 account.
iv. Stale cheques or uncollected cheques increased by some $12,227 during the year (2010: $62,046.79 & 2009: $49,819.49)

6.2 No.4 account

As shown above the No.4 account was significantly dropped by $26 million in 2010. This relates to a growing number of government projects allocated to this account during the year. The receipts and payments of such projects are accounted for and each has numerical code with the letter N for Revenues and H for expenses. The audit noted that the reconciliation process had been performed on a monthly basis which is a good practice however the following issues are noted:

i. No breakdown to support the balance for Prior Period Items (PPI) of $24,748,164.99 on a General Ledger.

ii. Upon reviewing the bank reconciliation statement the audit noted one significant amount for deposit not yet credited to the bank of $1 million funded by Taiwan for short term repair for Cassidy Air-port Xmas. This amount was receipted on RR# 738119 (chq no. 588143). The audit agreed that this amount has not yet deposited to the bank since no evidence of deposit slip or inclusion in the bank statement. As per explanation by the responsible officer, MFED had traced the receipt of this fund with Taiwan embassy but no reply until date. Since there is no evidence of the transfer or deposit slips attached then the audit would clarify that this amount had overstated the balance of deposit in transit. The issue is not with the bank but with the project donor (Taiwan embassy) as to whether the fund is not released or is pending in an account yet to be advised.

6.3 No. 6 account

The No. 6 account is also known as a Stabex special fund which records revenues and payments related to copra that was received from KCMCL. As shown in the above table Stabex fund account is an overdraft in 2009 while significantly increased by $1.4 million to a balance of $4,938.91at the end of 2010. The increase relates to major adjustments made on JV 320/12 amounting to $438,666.10 which has been transferred to the PPI account but no supporting documents available for review. From the absence of the breakdown or a list of cheques and deposits in transit attached to the JV, we are unable to verify whether these payments or deposits are actually paid or received. Like other cash accounts reconciliation the No.6 account was also reconciled on a yearly basis.

6.4 Cash Local government

Cash local refers to closing cash balances at the end of the year held by cash local agents on the Outer islands through the state fund account. The balance as per table above indicates a decrease of 73% between 2009 and 2010. However we are yet to confirm that the above figure is correct due to the following variances:

Balance per GL	Balance per Account	Variance
63,190.24	71,635.92	8,445.68
Balance per GL	Balance per Cash Book	Variance
63,190.24	233,144.86	169,924.62

Table 6.b. Cash Local balances between Account, GL & Cash book

<u>*Other Issues:*</u>

i. The table below shows some issues noted after examining one selected state fund for the following months:

Account	Issue	Amounts
August	Shortage of issue telmo	$455.50
October	Issue telmo is not receipted	$19,538.65
November	Expenditures exceeds Revenue by	$776.79
	Closing Balance on GL (776.79) did not agree with cash balance of $6,784.20	$6,784.20 - $776.79 = $7,560.99
	10 PFs 25 are not recorded in the Money Order Issue Journal & in the Cash book	$7,846.80
December	Cash on hand $2,381 did not agree to closing balance of ($4,569.90)	
	A number of receipted telmo or PF 25s valued had not been recorded in the cash book during the period	$10,250.90
	Shortage which is a difference between physical cash balance and closing balance	$4,200.20

ii. The following PF25 were still missing or not submitted amongst the state fund returns for the year 2010.

Year	Month	PF#25 serial #	No. of pages missing
2010	September	751272-751284	14
2010	October	751357-751398	15

6.4.1 Board of Surveys (BOS)

Under FR chapter 17, BOS should be held after the close of business on the last working day of each financial year. At year-end 2010, BOS has been conducted and cash balances are reflected in the Cash book as shown in table 6b above. In addition, cash balances at year end for Revenue cashiers at Finance and other Ministries are not reflected under cash local as they are receipted back and deposited to the No.1 account. However the audit is unable to confirm whether such closing cash balances as per cash book are correct due to the non-availability of BOS reports. The same case for revenue cashier at Finance where as there is no BOS report and no evidence to see any signatures of appointed officers as required by FR chapter 17, section 349 at the closing date of the cash book.

6.5 IBD with BOK Ltd

Opening Balance	4,730,000.00
Add Deposits	5,308,064.65
Less Withdrawal	10,038,064.65
Closing Balance	-

Aside having no IBD bank statements provided, we confirmed the existence of such deposits and withdrawals through obtaining the No.1 Bank statements. The above significant deposits and withdrawals to and from the IBD account had been made directly with the No.1 account to reduce the level of Overdraft. The audit noted that the above nil balance indicates a full withdrawal from the IBD account during the year. Upon our further enquiries regarding the existence of the account the responsible officer explained that such IBD account had been closed as clearly indicated with a nil balance at the end of the year. However we are yet to confirm whether the given information is true due to no strong evidences or other correspondences to support the closing of the IBD account.

6.6 Kiribati High Com. Bank account

The audit is unable to confirm the cash balance of $284,668.63 as disclosed in the account due to the non-submission of the reconciliation statement and also there is no bank confirmation provided from the Bank. This has been raised in prior audit report but no prompt action has been done.

Management comment

6.1. GOK No. 1 account:

i. *We can do it on a monthly basis and we will try in 2013 Bank Reconciliation*
ii. *Noted and that has been done in the 2011 Bank Reconciliation*

6.2. NO.4 account:

i. *We could not provide documents on this as it reflects the un-reconciled balances for the year 2004 to 2009.*
ii. *The Accountant General has liaised with Audit on the next step to proceed*

6.3 NO.6 Account:

i. *We can do it on a Monthly basis and we will do it in the 2013 Bank reconciliation.*
ii. *An amount of $438,666.10 is our PPI in the No.6 Bank account and we move out from this bank account and put aside so that when reconciliation for this account done from years 2004 to 2009 this will be zero in balance beside we could not provide supporting documents as it is our balance that detected during the cut off period. As shown on the cash book it seems that we have a net off balance of that amount that means more payments to be adjusted or not updated before the cut off period.*

7. Statement VII: Advances from the Consolidated Fund

Recommendations

7.1.1. *Advance*

- MFED needs to review first advance accounts to ensure that the amount disclosed is correct and thereafter would proceed with the recovery of $18 million being advanced by concern staff.
- MFED to set a limit on total advances to secure drainage of cash fund and save overdraft downturn
- MFED through exam unit should store issued queries in a proper place so that it can be easily found or located and also to follow up all the outstanding queries.
- MFED should prepare a Journal Voucher to adjust the officer's personal advance account balances.

7.1.2. Imprest Travel

- 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. (After all these officers had traveled, had incurred expenses the cost of which had been met from the Ministries' overseas output)
- Each Ministry, through Senior Accountants, should have a list of officers travelling the records of which would greatly assist in updating all travels accomplished.
- Special rules need be established for issuing Imprests. E.g. fully funded/partially funded ones would only be entitled to $300 while locally funded trips would only be issued per diems and incidentals to be claimed upon return.
- To change the Imprest issued for travels to Kiritimati from accountable to non-accountable.
- MFED should review imprest and to ensure that only one imprest account is maintained per employee or imprest holder

7.1.3. Others (J0044)*

- MFED has to provide a list of adjustments for those corrections made in regard to the above account

7.2.1. Returned cheques

MFED should:

- ensure that all cheques are safeguarded and placed in an appropriate and a secure location
- Retain listing of bounce cheques
- Review the balances and submit for write off those outstanding cheques that can no longer be recovered

Findings and Analysis

Advance account comprises of the followings sub accounts:

Title	2007	2008	2009	2010	Inc/(Dec)'10'
Other Govern	7,066.00	7,066.00	7,066.00	7,066.00	0.00
Public Officers	9,949,622.15	10,140,865.50	-8,429,836.54	10,067,025.25	18,496,861.79
Miscellaneous	8,729,016.04	1,465,080.13	1,824,887.79	1,720,726.56	-104,161.23
Total	**18,685,704.19**	**11,613,011.63**	**-6,597,882.75**	**11,794,817.81**	**18,392,700.56**

The level of advances had significantly increased by $18.39 million in 2010. This relates predominantly to a significant increase of Public officers account from a negative balance of $8.4 million in 2009 to a positive balance of $10 million in 2010. As detailed and recommended in my previous audit reports Other Government should be written off.

7.1. Public Officers

Title	2007	2008	2009	2010	Inc/(Dec)'10'
Advances	2,638,906.17	2,776,181.66	2,948,848.44	4,968,959.44	2,020,111.00
Imprests	2,171,109.73	2,126,392.16	2,728,187.19	2,410,601.98	-317,585.21
Stabex Imprest	4,604,318.15	4,604,318.15	4,807,955.85	4,807,955.85	0.00
Standing Imprest	535,288.10	633,973.53	19,633.43	19,633.43	0.00
Other (J0044*)			-18,934,461.45	-2,140,125.45	16,794,336.00
Total	**9,949,622.15**	**10,140,865.50**	**-8,429,836.54**	**10,067,025.25**	**18,496,861.79**

7.1.1 Advances

Advance account had increased by $2 million in 2010 and it covers both Salary and Personal Advances that public employees owe to Government.

During the review of personal advance the audit noted that the recording of issued queries was not maintained properly. Another issue is that some advance accounts are not correctly reflected in the account and are as follows:

Kuria State fund-July Batch#792-$4,462.22
An officer was charged with the above amount for being submitting payments without supporting documents. According to a reply letter dated 20/09/10, supporting documents are attached therefore the amount being charged should be cleared off.

Tab North State-fund-Sept Batch#1558-$48,389.83
The audit reviewed that the above amount which surcharged under the officer's account was incorrect. According to the Schedule of Receipts and Payment for September account, it was noted that the correct figure was $10,787.52. As a result there was a variance of $37,602.31.

Maiana State-fund-Nov-Batch#1476-$10,747.32
The above amount was incorrectly charged under the officer. After the examination, it was found that the payment was fully supported with relevant documents therefore should not be charged under the officer. It was also noted that the above amount still not yet reimburse from the No.4 account.

7.1.2. *Imprest Travel*

In 2010 the balance had decreased by $317,585.21 compared to 2009. This indicates a good improvement over the control of imprest as many employees retired their imprests during the year. Although with significant concern the above balance of $2.4 million in 2010 had been accumulated due to the fact that many travelled officials were not able to provide supporting documents upon completing their trips especially with those per diem allowances to provide hotel receipts. From a review of outstanding imprest it includes balances for per diem allowances plus incidental costs. This has been a system before for many years which needs to be looked into in current practice. It is important to note that a system needs to be quickly set up where per diem allowance has to be separately recorded from incidental cost and once when any employees retiring their imprest should provide documents for those incidental costs only while the per diem entitlement should be noted cleared if the officer has completed a trip or travel. With the use of this new system imprest division will be able to provide a more realistic outstanding amount for imprest.

Other issues:

- From a list of outstanding imprests there are cases of deceased and retired people in which the imprest division is unable to give us actual total balance hence these amounts could not be recovered and required write off actions.
- The audit found out that there are imprest holders that held more than one account which is not a good practice as it is a way of discouragement to others not to retire their imprests.
- Akin to above is the Imprest amount for Kiritimati. To be more realistic and so as not to distort other records, Imprest needs to be changed to non-accountable one and to apply similar treatment to officials visiting Tarawa from outer islands including Kiritimati.

7.1.3. *Stabex Imprest (L300A*): $4,807,955.85 (2010)*

Nothing has changed since the last audit report. The transactions should be charged to Local Stabex Fund.

7.1.4. *Others (J0044*) -$2,140,125.45 (2010)*

J0044* was a new account in 2009 in which non-accounted debits and credits for the No.1, No.4, No.6 and others were dumped here awaiting adjustments or corrections. The account should not exist unless there are irregularities in the reconciliation system. In comparison to last year figure the negative balance had been significantly decreased by $16.79 million in 2010. The decrease relates to major adjustments made for those unidentified debits and credits which were corrected in 2010. This shows an improvement in the reconciliation system however the audit would have agreed if a list of adjustments is provided for such scrutiny.

Advances Miscellaneous

The three accounts CFTC, Crane South and Naruai should be written off as had been recommended by PAC but which still appear in the 2010 account.

Title	2007	2008	2009	2010	Inc/(Dec)'10'
CFTC Advance	1,366.00	1,366.00	1,366.00	1,366.00	N/Change
Be 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	8,725,046.06	1,461,110.15	1,820,917.81	1,716,756.58	-104,161.23

Total	**8,729,016.04**	**1,465,080.13**	**1,824,887.79**	**1,720,726.56**	**-104,161.23**

Table 7a Advances Miscellaneous

7.1.5. *Returned Cheques $1.72 million (2010) -*

The difference between opening and closing balance of negative $104,161 relates to a decrease balance in bounced cheques during the year which showed a major improvement by MFED in managing bounced cheques. The decrease refers mainly to a recent approach adopted by the MFED whereby an offset payment is made to recover those outstanding amounts for companies, ministries and individuals with bounced cheque. (Any due payments are withheld by Finance).

Accordingly only a balance of $131,605.23 is available on hand with supporting documents while the remaining balance of $1.58 million as stated below could not be clarified and explained.

Balance per Account	1,716,756.58
Balance per Listing	131,605.23
Variance	$1,585,151.35

It is reported that only an amount of $5,000 (this is excellent and MFED should be commended for an astounding job done) for bounced cheque refers to 2010 while the remaining balance relates to prior years.

Management Comment

8. Statement VIII: Advances from Deposits

No Advances were made from Deposits in 2010.

9. Statement IX: Deposits accounts

Recommendations

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

- MFED should as a priority review those figures for deposits account (positive and negative balances) to ensure that the correct balance is disclosed in connection to the reality of the account.
- (9.1.1.) An agreement for Bank Agency arrangement should be available at the time of audit to enable the audit to check that banking policies on the outer islands had been consistently followed by outer island treasurers.
- (9.1.2.) 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. This is one of the areas prone to abuse therefore stringent monitoring is also required, say, on a quarterly basis, with Ministries concerned particularly on the stations of their staff.

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.

Title	2007	2008	2009	2010	Inc/(Dec)'10'
Deceased Native Estate	671,955	-1,121,502	-905,600	-1,134,597.63	228,997.63
Public Officer	18,433	-22,233	87,460	86,955.97	504.03
Sundry deposits	862,864	-2,888,646	-3,254,310	8,962,031.58	-12,216,341.58
Telmos	1,242,623	-644,482	1,529,010	-4,279,480.88	5,808,490.88
Total	**2,795,876**	**-4,676,865**	**-2,543,440**	**3,634,909.04**	**-6,178,349.04**

Table 9a Deposit accounts for years 2007-10

At the end of 2010 the Accounts had a net balance of $3.6 million which includes huge un-reconciled balances such as Deceased Native Estate accounts, Sundry deposit and Telmos.

9.1. Deceased Native Estate

DNE refers to the sum of money particularly KPF benefits standing to the credit of a deceased member and to be apportioned among the dependents or any of them as the court thinks fit. Section 26 of the Provident Fund Ordinance CAP 78A gives the Land Court the power to distribute the funds of a deceased officer. The chief of Lands Office administered any portion of the amount payable to dependent under the age of 18 years. This Office is also responsible to create an account with the bank whereby withdrawal is only authorized by the Director of Lands. Relevant documents such as court's minutes and High Court Journal Voucher are sent to Finance for recording purposes and copied to the Director of Lands.

9.1.1. *Audit review*

The issue as shown in the accounts is the negative figure which means DNE owes government $1.13m, increased by $229K and was in contrast to 2009. However we are not satisfied with the balance disclosed in the account as no reconciliation had been performed between Land division and Finance. This figure required MFED confirmation.

9.2. Sundry Deposits

The account should be positive in nature meaning that there are available balances for those sundry deposit accounts hence is a government liability. A negative balance stands for an amount owed by sundry deposits therefore should be paid to the government. In 2010 sundry deposits account was suddenly reversed and disclosed as a liability of government. The escalation in the balance mainly relates to a positive figure of **$20.8 million for the No.4 un-reconciled items reported under sundry deposits in 2010.**

Below is one of the sub-accounts listed under sundry deposits with significant balance as shown below:

9.2.1. *Bank Agency Arrangement: $2,854,327.44*

Bank Agency Arrangement is an agreement between the ANZ bank and government to enable people on the outer islands to use their passbooks to deposit and withdraw from the State Fund. A debit balance indicates a withdrawal amount from the state fund therefore the Bank has to pay back the amount to the government while a credit balance refers to a deposit to the state fund therefore the government has to pay to the bank. From a review of the system in place for Bank Agency Arrangement the following issues are noted:

- There is no copy of agreement available for review and despite not reviewing an agreement and from an explanation by the responsible officer the withdrawal limit is $100. As we confirmed from our walkthrough test, such procedures had not been followed by island treasurers where they allow people to withdraw over $100.
- SB25 is a form provided by the bank to be filled by island treasurers to records any details of daily deposits or withdrawals. Hence such SB25 is not well supported with either supporting slips with signatures for deposits and withdrawals.
- The audit noted that the returns from the outer islands are maintained but such reimburse or payment amount has never been reconciled or followed up to the Bank. This had been clearly indicated by a positive $2.8 million balance which should be paid by the bank to the government but never been reconciled by MFED.

9.3. Telmos -$4,279,480.88

A balance of negative $4.2 million disclosed in 2010 stands for an amount to be paid to government. However the figures are not realistic in nature given that the account had never been reconciled between the Issue Telmo (PF25) and the Paid Telmo (PF27) and the posting of telmo figures in the system is not updated nor reviewed by the responsible officer.

Other issues:

- Unavailability of accounting records and supporting documents for Telmo
- Misplaced or Unavailability of PF25 and Journals.
- Unposted PF25 to the general Ledger amounted $42,516.80 for Nikunau State Fund.
- Unrecorded PF25 or Issue Telmo for Maiana State fund amounted $29,830.05 which is recorded in the Issue Journal while not entered in the Cash book.
- The audit noted a balance of $68,753.60 omitted PF27 or Paid Telmo for Maiana State Fund which is not yet posted onto the system of P005100010A.*Original submission through sending medium to recipients should be audited.*

Management Comments

10. Statement X: Contingent Liabilities

Recommendations

MFED needs to explain on how they come to such balances and to provide supporting documents and to ensure the figures agreed to those of SOE's.

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.

10.1. Bank of Kiribati

The Bank of Kiribati was approached to confirm balances. These balances vary considerably to those reflected in the 2010 annual accounts.

		ANZ Bank info @ 31 Dec 2010		
	2010 accounts	Overdraft limit	Utilised amount on OD	Term Loan balance
BKL	2,100,000			
KCM	368,000			
CPPL	300,000	300,000	-125,479.43	Nil
TSKL	6,747,000			
KCSL	450,000			
KOIL	9,000,000			
KSSL	5,200,000			
PUB	2,939,000			
KPA	1,399,000			
OHL	200,000			
BPA	117,000	117,000	34,070.92	Nil
KSCL	500,000			
Total	**$29,320,000**			

Table 10a Contingent liabilities summary

After sending request to the ANZ bank on audit certificates in respect of the above SOEs, the audit only received bank certificate for BPA and CPPL as shown in the above table. We confirmed that those highlighted amounts, two of them, agreed to audit certificates while the remaining balances are not yet provided by the ANZ bank. Without bank audit certificates we are not able to confirm the remaining balances disclosed in the account.

Management Comment

11. Statement XI: Investments

Recommendations

We recommend that GL for other investment accounts should be updated and also adjustment to be made in regard to the wrong posting of interest for Rothschild & son investments.

Findings and Analysis

The Statement details two investments: RERF valued at $580,916,530.27[7] and other Investments totaling $1,560,037.05

11.1. Other Investments: $1.56 million

Other Investments	2010	2009	Movement
World Bank	18,336.12	18,336.12	0.00
Rothschild &Sons Investment	168,214.21	168,214.21	0.00
Investment with CBA-Stabex	0.00	0.00	0.00
Investment with CBA-Coinage	214,211.91	214,211.91	0.00
International Development Asso	11,693.05	11,693.05	0.00
IMF N0.2	292,186.50	292,186.50	0.00
IFC Subscription	11,308.50	11,308.50	0.00
Escrow Investment	66,536.76	66,536.76	0.00
CBA Investment-Con Fund	744,999.60	744,999.60	0.00
Aud A/c 56-0449. 10th Anniversary	8,731.00	8,731.00	0.00
AUd A/c 55-1999 5th Anniversary	23,819.40	23,819.40	0.00
Total	**1,560,037.05**	**1,560,037.05**	**0.00**

Table 11a Movement of Other Investment between 09 & 10

The above table simply highlights the movement of other investments for years between 2009 and 2010. As can be seen there is no change in value amount, meaning that there are no interest gains from such investments. In this respect minimal testing has been performed because the same issues would be repeated from 2009. However the audit only noted the following:

- GL for Rothschild & sons investment is not yet updated and this is due to the non-inclusion of interest gains amounted $30,107.89 for years 2004 & 2005. This interest amount has been misallocated as an interest gain under the consolidated fund.

Management Comments

[7] RERF addressed Section 17: Statement No. XX

12. 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

12.1. 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 2010.

12.2. 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
TeMautari 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**	

The corresponding repayments on the loans have been neglected for some time[8] and as the total outstanding amount is substantial these should be cleared in the manner as noted above.

Management Comments

[8]Most of loans are long outstanding for more than 20 years.

13. Statement XIII: Public Debts

Recommendations

2008 Recommendation- The GOK should formally write to ADB and seek clarification in relation to this. 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.

It is further recommended that such loan balances should be reviewed and corrected by MFED.

Findings & Analysis

Public Debts is part of the statutory reporting requirement of section 40 of Cap 79, but does not form part of the Annual Account. As Reported in 2010 Public debts were still inactive however in comparison the total outstanding of $15,579,560 in 2009 was significantly decreased by $1.53 million (or down to $14,048,208.11) in 2010.

13.1. Public Debt as at 31st December 2010

Debt Servicing	Date	Age	Amount in USD	Exchange Rate	Amount Repaid AUD	Outstanding in AUD
ADB Loan No. 281	1985	25	76,475.29	0.9769	14,044.98	78,283.64
ADB Loan No. 724	1988	22	411,863.24	0.9769	17,299.82	421,602.25
ADB Loan No. 786	1989	21	527,124.46	0.9769	43,149.22	539,588.97
ADB Loan No. 922	1990	20	803,951.05	0.9769	49,551.55	822,961.46
ADB Loan No. 1039	1991	19	736,231.36	0.9769	28,507.41	753,640.45
ADB Loan No. 1648	2000	10	11,168,049.11	0.9769	405,034.41	11,432,131.34
TOTAL			**13,723,694.51**		**557,587.39**	**14,048,208.11**

The ageing of the above public debts are more than 10 years dated back from 1985 to 2000. As mentioned earlier the decrease in outstanding balance of $1.53 million should relate to repayment during the year to such loan accounts. However this is not agreed to total repayment disclosed in the account of $557,587.39; there is a variance of some $973,764.50. Such repayment amounts have been budgeted for under Debt Servicing.

Management Comments

14. Statement XIV: Arrears of Revenue

Recommendations

- MFED has to strictly ensure that Arrears of revenue returns are submitted on a timely manner and accountable officers should be held responsible for the non-submission of such returns.
- Arrears of revenue dated 5 years and above should require writing off and any current arrears should be collected as revenue by concern ministries.

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:

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	**Grand Total**	**11,616,977.54**

Table 14 a. Arrears of Revenue 1972 to 2010

The disclosed balance of $13,715 for Arrears of revenue in 2010 referred to Judiciary only. This is totally not reliable since many ministries list of arrears of revenue were not submitted nor disclosed in the account. Upon enquiry to Finance the audit noted that other Ministries did not submit their returns despite having been reminded by the Finance (letter sent). MFED also had made a number of follow ups through phone calls to remind respective ministries to submit their returns before the closing date of the account hence no returns had been received by Finance.

With concern those outstanding arrears of revenues have been dated back since 1972. Arrears incurred in 2006 and prior years should be written off as they are time barred while 2007 up to current 2010 would be noted as current and should be collected by concern ministries.

Management Comment

15. Statement XV: Unallocated Stores & Manufacturing

Recommendations

Officers responsible for the losses but not found guilty by the court should be disciplined as suggested by FR 324 (1) (d). The most appropriate punishment to 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:

15.1. Losses of Public Funds

The value of losses of Public Funds and Stores as at 31 December 2010 was $441,210 with some of these dating back to 1987. Many of these cases remained outstanding either awaiting outcome of investigation or 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

(Refer Appendix for Losses of Public funds 2006 to 2010)

Management Comment

16. Statement XVI: Development Fund

Recommendations

MFED should implement bank reconciliation as a priority for each individual projects to ensure that the fund is properly managed.

Findings & Analysis

16.1. Establishment and Purpose of the Fund

The Development Fund is a special fund under cap 79, section 10(2) and schedule 2 of the Constitution *(Refer Appendix 4 re)* ***refers,*** is used to finance development projects from donors. The Fund consists of two types, one is local contribution from consolidated fund and the other is from donors 'in kind' aid provided by various external donor countries and aid agencies, all of which appear in each budget year from sources are quite distinct, particularly for that actually provided for from consolidated funds.

16.2. Overall Position of the Fund

The value of the Development Fund as at 31 December 2010 disclosed in Statement XVI was $13,245,320.98. This figure did 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.

16.3. Bank Reconciliation

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

16.4. Local Contribution to Development Fund

It was noted that in 2010 the local Contribution to the Development Fund's approved provision reached $7,111,067. However, it appeared that only $1,424,145 was utilized during the year. As confirmed the total approved amount of $7.1m was actually utilized. Thus the above value of the Fund referred to in 16.2 above and total expenditure for the Local Contribution to Development Fund had been both understated by $5,686,712.

Also included in this provision were those already catered for in the recurrent budget such as: In-country tertiary support and Secondary Mission schools. In 2010 the provision for Secondary Mission and Tertiary Support as per recurrent were $430,000 and $207,970 respectively. In accordance with payment made from the Local Contribution to Development Fund[9] the authorized expenditure were $2.4m and $1.1 m for Secondary Mission School and In-country Tertiary Support respectively, **In other words, the Secondary Mission Schools and In-country Tertiary Support had two sources of Funding: Local Contribution to Development Fund and the recurrent under Other Government Expenses account.**

Management Comments

[9] Refer page 106 of 2010 Annual Account

17. Statement XVII: Suspense account

Recommendation

MFED should post any unallocated revenue and expense under suspense account to await corrections or adjustment instead of posting them under i.e. Sundry deposits and distorting the balance.

Findings & Analysis

There were a number of Suspense Accounts in 2010, but they had been posted to other accounts. For instance, the PPI un-reconciled bank balances account, posted under Sundry Deposit Account. The amounts involved were: ***-$13, 795,670 and $20,794,390.54. These amounts had been wrongly posted to Sundry Deposit, when they should be posted to Suspense account.***

Management Comment

18. 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
- 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 financial year 31 December 2010, cash in transit balance had been significantly decreased by 90% to a balance of $248,994 compared to $2.4 million in 2009, ($7,261,907 in 2008 and $2,505,366 in 2007). A major decrease was caused mainly by a number of outstanding RBC and adjustments for prior years made during the year.

After a review of the account the audit noted the issues as follows:

i. Inward and Outwards Register are not well maintained in accordance to the standard format of the Register stated in the FR section 249 (1), chapter 12.
ii. The processing of reconciliation was very poor to investigate any apparent delay in the receipt of any sum remitted, or in the receipt of document of acknowledgment and acquaintance. No hard copies provided during the auditing to review who sign and check the RBC reconciliation.
iii. During the year outstanding remittances totalled up to some $12,974.70

Management Comment

i. *We have normal register book for RBC being send to outer islands, where we record the requested amount, sending district and etc. As per stated above, we will try our best to make ours to a required standard this year and kindly request if there's a format in regards to a FR standard*

ii. *Returns from outer islands were posted to us the next week of the following month and therefore we can possibly receive them the next week or the week after but that is only on occasions of unavailability of flights. That is the main cause of the delay in the reconciliation. We been through this situation for years but if you can compare the figure for previous years and current years you can tell that the amount is starting to reduce, that means there is an improvement made in these current years. I hope this downward pattern will continue until we reached a zero balance.*

19. Statement XX: RERF

19.1. Overview[10]

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.

19.2. Background

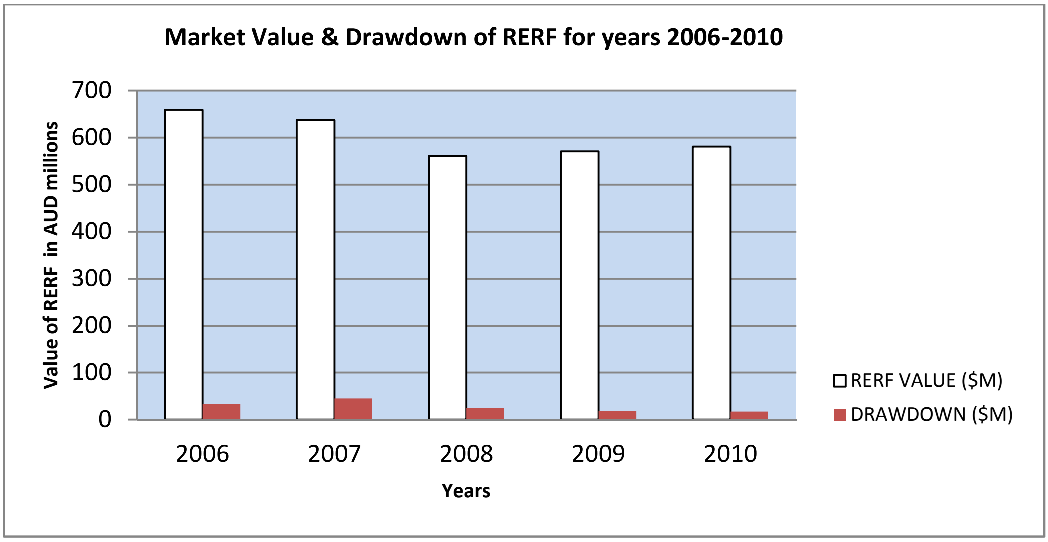
The fund was established in 1956 and capitalized using phosphate mining royalties. Under a conservative policy, the fund's asset grew steadily until 1979 when phosphate deposits were exhausted. Until recently, conservative policies have protected the RERF. Since independence Governments have generally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

For the past five years 2006 to 2010 the overall drawdown from the RERF is $138 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.

19.3. 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.

19.4. RERF Analysis[11]



The above bar chart shows the trend of market value and drawdown of the RERF for the past five years. The market value of the RERF as at 31 December 2010 and 2009 are $580.92 & $570.91 million respectively.

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

[11] MFED, *Republic of Kiribati Annual account for the year ended 31st December 2010*, p.140.

19.4.1. Value of the Fund

As clearly indicated the value of the RERF for 2006 was some $659.58million which is the highest value compared to other years. The value of RERF slightly decreased by 3 percent in 2007 while a major decrease of 12 percent was experienced in 2008 ($561.60m).In 2009 ($570.91m) and 2010 RERF values constantly increased by 2 percent.

19.4.1(a). Variances in the Value of the Fund between Fund Custodian and Fund Managers' record

In 2010 the value of the fund according to the Custodian (State Street) and Manager (HSBC) were differed as detailed below:

	Date	Bond (HSBC)	Equity (HSBC)	Total
Custodian	31/12/10	133,568,358.47	164,961,142.68	298,529,501.15
Manager (HSBC)	31/12/10	133,022,617.00	164,358,611.00	297,381,228.00
Variance		545,741.47	602,531.68	1,148,273.15

Since the difference of $1.2m could not be provided and that the Fund Manager was dealing with trading of the portfolio of the fund, the value of RERF was therefore deemed overstated. Unfortunately, the record for the other Fund Manager: NICAM had not been provided to us, but this would be the same case, which should add more to the overstatement.

19.4.2. Drawdown

The movement of withdrawals throughout the years clearly shows that 2007 has the highest amount of withdrawal of $45 million. However withdrawals slowly decreased in subsequent years from 2008 to 2010, viz : $25m for 2008 and $18m 2009.

The actual drawdown in 2010 was $17.3 million.

19.4.3. Deposit

The total deposit or contribution into the RERF for the year 2010 was $5.9 million (second deposit) while the last deposit in the year 1999 was $5 million.

19.4.4. Total income

The income for the year 2010 achieved by HSBC was $16.52 while NICAM had $7.81 million thus amounted to Au$ 24.33 million.

19.4.5. Overall return

The overall return of the fund for 2010 was 4.05% which was under performed compared with 5.35% in the year 2009.

19.4.6. Investment Management Agreement: Nikko Global Asset Management (UK) Ltd

The above agreement between the Government of Kiribati and one of its fund managers (Nikko) was dated: 9th December 2005, seven years back. This implies that there had been no review or updates being made on such important agreement.

19.4.7. Discretionary Fund Management Agreement: HSBC Global Asset Management (UK) Ltd

The Agreement was dated: 2nd June 2008 and was noted that authorized signatories had not been changed. The former signatories include; former Minister of Finance, Secretary and the late Accountant General, so they are no longer working for the Government of Kiribati.

As clearly stated in Schedule: Part 2- Fund Details AND CUSTOMER'S instruction, there should be auditors of the RERF. However, as evidenced from item 5.5 (d) of the schedule, auditors to the fund had never been appointed.

19.4.8. Management and Custodian Fees

The total expense for management, custodian and other fees at end of 2010 was $1.4m. The bulk of such expense related to Management and Custodian fees of $923,714.87 and $320,056.19, respectively (2010:$1.2m). The very important issue here to consider seriously is the sluggish value of the RERF and the increasing management and custodian fees every year. Payment of fees should be based on the performance of the RERF at end of the year. A review of the agreement, particularly on the methodology of establishing the fee rates, need be considered.

20. Outstanding Accounts for Statutory Owned Enterprises

Outstanding accounts as at 24/04/2013

Agency	Report Date	Overdue Accounts
Air Kiribati Limited	31-Dec	
Betio Shipyard Limited	31-Aug	2010 - 2012
Bobotin Kiribati Limited	31-Dec	
Broadcating Publication Authority.	31-Dec	2011
Captain Cook Hotel	31-Dec	
Development Bank of Kiribati	31-Dec	
Kiribati Central Pacific Producers	30-Apr	
Kiribati Copra Mill	31-Dec	2011
Kiribati Copra Society	31-Dec	
Kiribati Handicrafts	31-Dec	
Kiribati Housing Corporation	31-Dec	2010-2011
Kiribati Insurance Corporation	31-Dec	
Kiribati Oil Company Ltd	31-Dec	
Kiribati Port Authority	31-Dec	
Kiribati Provident Fund	31-Dec	
Kiribati Shipping Services Limited	31-Aug	2008-2012
Kiribati Solar Energy Company	31-Dec	2010-2011
Otintaai Hotel Limited	31-Dec	
Plant & Vehicle Unit	31-Dec	2011
Public Utilities Board (PUB)	31-Dec	
Telecom Authority of Kiribati	31-Dec	
Telecom Services Kiribati Ltd.	31-Dec	2009 - 2011
Television Kiribati Limited	30-Jun	2011- 2012

Table 20a: Outstanding 2010 Account

STATUS OF MATTERS RAISED IN PREVIOUS MANAGEMENT REPORTS

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

STATEMENT OF AUDITOR INDEPENDENCE

Independence

We confirm that, for the audit of Government of Kiribati Annual account for the year ended 31st December 2010, 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).

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

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.

APPENDIX ONE: STATUS OF PRIOR MANAGEMENT LETTER ITEMS

A1.1: Matters cleared

NIL

A1.2: Matters outstanding 2009

Summary of issue	Audit risk	Management response
Lack of revenue reconciliation.	High	None
Control weaknesses over other government expenditures.	Medium	None
Unavailable documents for special fund accounts.	Medium	None
Poor bank reconciliation for particularly No.1, No.4, No.5 & No.6 accounts.	High	None
Un-reconciled advance account balances of million and non-availability of imprest Subsidiary accounts.	High	None

Summary of issue	Audit risk	Management response
Incorrect Contingent liabilities balance and omission of Government Finance Lease from ANZ Kiribati amount $2.7 million in the 2009 Annual account.	High	None
Unavailability of GL for some other investment accounts.	Medium	None
Queries regarding the status of loans issued and public debt.	High	None
Lack of proper reconciliation, controls and incorrect balance for Arrears of Revenues.	High	None
Irregularities in the cash in transit figure.	High	None
Understatement of Revenue and Expenditure by $766,072	High	None

APPENDIX TWO: LOSSES OF PUBLIC FUNDS 1994-2010

Ministry of Finance & Economic Development

Year	Details		Remarks
2003	Cheques collected and cash by unidentified person	378.00	AG 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	
2008	Alleged fraud at MPWD		Case still with Police
		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
2006	Misuse of Public fund		Suspect in PNG, file returned to Police. AG awaits a response
2008	Misuse of Public fund		
		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	6,272.91	Write off action requested
2009	Improper Payments of Leave Grant	13,874.35	With 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	AG's office recommends a write off
	Loss of Butaritari Copra fund	21,637.70	AG's office recommends a write off
	Loss of Abaiang island fund	396.47	AG'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
1993	Misuse of gov't property and public fund		Write off action requested
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 TeBeretitenti

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

		7,353.50	

TOTAL	**LOSSES OF PUBLIC FUNDS**	**$441,210.90**	

APPENDIX THREE: COPIES OF SIGNED 2010 ANNUAL ACCOUNTS

GOVERNMENT OF KIRIBATI - STATEMENT No. I

Balance Sheet

as at 31st December 2010

2009 $	Statement No.		2010 $	$
		FUNDS IN HANDS OF CHIEF ACCOUNTANT		
		INVESTMENTS		
289,453,052.27	XX	Investments with HSBC	298,529,501.15	
281,460,434.75	XX	Investments with NICAM	282,387,029.12	
823,360.25	XI	Other Investments	1,560,037.05	
571,736,847.27				582,476,567.32
		CASH		
17,935,442.21	VI	Cash at Bank and on Hand	4,527,937.35	
2,414,343.15	XIX	Cash in Transit	248,993.85	
20,349,785.36				4,776,931.20
	VII	**ADVANCES**		
7,066.00		Other Governments	7,066.00	
-8,429,836.54		Public Officers	10,067,025.25	
1,824,887.79		Sundry Advances	1,720,726.56	
-6,597,882.75				11,794,817.81
LESS				
	IX	**DEPOSITS**		
-905,600.17		Deceased Native Estates	-1,134,597.63	
87,459.92		Public Officers	86,955.97	
-3,254,309.60		Sundry Deposits	8,962,031.58	
1,529,010.07		Telmos	-4,279,480.88	
-2,543,439.78				3,634,909.04
582,945,310.10				602,683,225.37
		ATTRIBUTABLE TO		
7,877,438.97	II	Consolidated Fund	8,416,097.83	
3,785,526.62	XVI	Development Fund	13,245,320.98	
570,913,487.02	XX	Revenue Equalisation Reserve Fund	580,916,530.27	
-2,965,781.85	V	Stabex Special Fund	-3,186,005.97	
3,334,639.34	V	Other Special Funds	3,291,282.26	
582,945,310.10				602,683,225.37

Ag/Accountant General

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GOVERNMENT OF KIRIBATI - STATEMENT No. II

Consolidated Fund

as at 31st December 2010

	Expenditure					*Revenue*				
	Budget					*Budget*				
	Org.	*Revised*	*Pro Rata*	*Actual*	*(Over)/Under*	*Org.*	*Revised*	*Pro Rata*	*Actual*	*Over/(Under)*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
01 Government of Kiribati Revenue	0	0	0	0	0	-79,259,909	-79,259,909	-79,259,909	-92,261,040	13,001,131
02 Contribution to Development Fund	7,111,067	7,111,067	7,111,067	1,424,145	5,686,922	0	0	0	0	0
03 Contribution to RERF	0	0	0	0	0	0	0	0	0	0
09 Support to the Beretitenti	1,026,896	1,040,790	1,040,790	1,064,690	-23,900	-4,038	-4,038	-4,038	-9,120	5,082
10 Public Service Office	633,926	648,918	648,918	647,082	1,836	0	0	0	0	0
11 Judiciary	1,416,421	1,455,221	1,455,221	1,477,883	-22,661	-205,200	-205,200	-205,200	-228,545	23,345
12 Police and Prisons	6,561,771	6,755,810	6,755,810	7,232,178	-476,368	-36,180	-36,180	-36,180	-51,972	15,792
13 Public Service Commission	205,326	208,424	208,424	243,044	-34,620	0	0	0	0	0
14 Foreign Affairs	1,078,258	1,153,473	1,153,473	1,222,957	-69,484	0	0	0	-32,465	32,465
15 Ministry of Home Affairs and Rural D	2,579,675	2,658,588	2,658,588	2,615,055	43,533	-58,160	-58,160	-58,160	-53,892	-4,268
16 Ministry Of Environment and Social D	2,688,070	2,754,554	2,754,554	2,707,646	46,908	-583,860	-583,860	-583,860	-153,383	-430,477
17 Maneaba ni Maungatabu	2,201,721	2,412,759	2,412,759	2,570,464	-157,705	-3,700	-3,700	-3,700	-11,055	7,355
18 Ministry Of Commerce, Industry and T	1,057,566	1,084,542	1,084,542	1,188,921	-104,379	-34,600	-34,600	-34,600	-64,060	29,460
19 Kiribati National Audit Office	576,796	592,582	592,582	603,684	-11,103	-76,250	-76,250	-76,250	-17,000	-59,250
20 Office of the Attorney General	461,204	471,275	471,275	477,596	-6,320	-1,250	-1,250	-1,250	-576	-675
21 Ministry of Natural Resources Develo	1,803,912	1,851,366	1,851,366	1,794,694	56,672	-166,500	-166,500	-166,500	-311,372	144,872
22 Ministry of Health and Family Planni	14,259,515	14,537,255	14,537,255	14,311,376	225,880	-111,400	-111,400	-111,400	-97,414	-13,986
23 Ministry of Education, Training and	16,259,316	16,901,716	16,901,716	16,920,584	-18,868	-151,160	-151,160	-151,160	-134,170	-16,990
24 Ministry of Information, Communicati	3,272,633	3,473,173	3,473,173	3,481,664	-8,492	-1,367,050	-1,367,050	-1,367,050	-968,484	-398,566
25 Ministry of Finance and Economic Pla	2,204,295	2,257,508	2,257,508	2,606,476	-348,968	-990,200	-990,200	-990,200	-889,826	-100,374
27 Ministry of Works and Energy	2,483,843	2,543,688	2,543,688	2,463,920	79,768	-36,700	-36,700	-36,700	-44,952	8,252
28 Ministry of Labour, Employment and	3,075,152	3,130,978	3,130,978	3,178,146	-47,169	-54,480	-54,480	-54,480	-76,864	22,384
29 Ministry of Line and Phoenix Develop	3,290,189	3,349,881	3,349,881	3,312,874	37,007	-460,000	-460,000	-460,000	-329,883	-130,117
30 Debt Servicing	1,269,500	2,283,929	2,283,929	9,764,545	-7,480,616	0	0	0	0	0
31 Other Government Expenses	12,003,004	13,724,109	13,724,109	13,887,791	-163,682	0	0	0	0	0
Grand Total	87,520,056	92,401,606	92,401,606	95,197,414	-2,795,808	-83,600,637	-83,600,637	-83,600,637	-95,736,073	12,135,436

Add Consolidated Fund Brought Forward	-7,877,439
	103,613,512
Less Expenditure	95,197,414
Consolidated Fund carried Forward	-8,416,098

Supply for 30: 20357.00 660,748 1,100,000.
15: 60,000.00 -73,407

Accountant General

Printed on: 29-Jun-11

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Development Fund

During the year the Development Fund received $31,659,078.and the amount spent was $22,091,325 Taking into account the balance brought forward from 2009 of $3,785,5267 there is an overall credit balance of $13,245,243

Revenue Equalization Reserve Fund (RERF)

The value of the fund as at 31st December 2010 was $580,916,530 credit. At the end of December 2009 the balance was $570,913,487 therefore the fund balance had increased by $10,000,043 or 1.8%. The increase in value of the fund was mainly due to the deposit of $5,900,000 made during the year which is higher compared to the last deposit made in 1999 in the sum of $5,000,000. The draw down made from the RERF as appropriated was $15,000,000. However, during the course of activity in the year 2010, a total realized figure of $17,300,000 was issued out. A full detail of RERF is depicted per Statement No.XX.

Advances

The level of advances in 2010 is again escalates mainly as a result of Island Council Treasurers personal advance which related to surcharges imposed against them for making payment without supporting documents and unsigned payment vouchers (PVs).

The imprest outstanding to Government by public officers was slightly decreased which reflect sound management and monitoring of these accounts during the year. A continuous effort by the Accounting Division Staff in reconciling these accounts is a matter of priority.

Please kindly note that issues raised in the Auditor General's report in 2008 account which were not addressed in the 2009 annual account are dealt with in this report while the rest will be handled separately.

Conclusion

This 2010 account is dedicated to all staff in the Accountancy Cadre who have given times and effort in producing it in one way or another

KAM BATI N RABWA ao TI NA BANE N TEKERAOI. ARA BWAI TE MAURI, TE RAOI AO TE TABOMOA IAON ARA BEKU.

Tekiera Ruaia
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

Summary of Investment with HSBC & NICAM ASSET MANAGEMENT for the year ended 31st December 2010.

SUMMARY OF ASSET MANAGEMENT
AS AT 31 DECEMBER, 2010
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	144,933,917.45	144,519,134.82	289,453,052.27	281,460,434.75	570,913,487.02
CONTRIBUTIONS	5,900,000.00	0.00	5,900,000.00	0.00	5,900,000.00
CASH TRANSFERS IN	18,150,000.00	0.00	18,150,000.00	0.00	18,150,000.00
ASSET TRANSFERS IN	0.00	0.00	0.00	0.00	0.00
CASH TRANSFER OUT	0.00	-18,150,000.00	-18,150,000.00	0.00	-18,150,000.00
LESS: WITHDRAWALS	-1,000,000.00	-3,300,000.00	-4,300,000.00	-13,000,000.00	-17,300,000.00
	167,983,917.45	**123,069,134.82**	**291,053,052.27**	**268,460,434.75**	**559,513,487.02**
ADD: INCOME					
Settlement Variance	0.00	0.00	0.00	0.00	0.00
Unit Trust Income - Tax Defferred	0.00	0.00	0.00	0.00	0.00
Other Income	57,636.82	1,402.48	59,039.30	0.00	59,039.30
Miscellaneous Income	0.00	0.00	0.00	0.02	0.02
Dividend Income	4,282,570.43	0.00	4,282,570.43	0.00	4,282,570.43
Interest Income	6,036.64	5,361,378.19	5,367,414.83	13,516,339.46	18,883,754.29
Currency Gain / Loss Security Settlements	75,923.60	-239,344.63	-163,421.03	-2,523,404.19	-2,686,825.22
Security Gain / Loss on FX Settlements	-71,735.54	13,420,949.03	13,349,213.49	-297,976.86	13,051,236.63
Security Gain / Loss on Interest Received	0.00	71.48	71.48	0.00	71.48
Security Gain / Loss on Dividend received	-12,801.37	0.00	-12,801.37	0.00	-12,801.37
Security Gain / Loss on Tax refund received	0.00	0.00	0.00	0.00	0.00
Average GN/LS on currency disposal	7,926.08	-11,390.67	-3,464.59	82,038.09	78,573.50
Average currency GN/LS	-6,135,113.75	-4,426,600.64	-10,561,714.39	-314,666.61	-10,876,381.00
Average Security Gain / Loss	3,056,844.70	1,151,296.46	4,208,141.16	-2,652,943.10	1,555,198.06
Total Income	**1,267,287.61**	**15,257,761.70**	**16,525,049.31**	**7,809,386.81**	**24,334,436.12**
LESS: EXPENSES					
Management Fees	299,257.97	292,785.61	592,043.58	331,671.29	923,714.87
Custodian Fees	155,329.48	61,082.69	216,412.17	103,644.02	320,056.19
Other Fees	555.70	0.00	555.70	0.00	555.70
Tax expenses	224,711.07	-1,809.77	222,901.30	-62,098.15	160,803.15
Total Expenses	**679,854.22**	**352,058.53**	**1,031,912.75**	**373,217.16**	**1,405,129.91**
LESS : Opening Unrealised App/Dep	-3,542,004.38	-808,234.89	-4,350,239.27	33,964,492.51	29,614,253.24
ADD: Closing Unrealised App / Dep	-68,203.78	-3,598,244.63	-3,666,448.41	-27,474,067.79	-31,140,516.20
	-3,610,208.16	**-4,406,479.52**	**-8,016,687.68**	**6,490,424.72**	**-1,526,262.96**
CLOSING MARKET VALUE 31/12/201[illegible]	**164,961,142.68**	**133,568,358.47**	**298,529,501.15**	**282,387,029.12**	**580,916,530.27**
CASH EQUIVALENTS	1,283,375.99	-2,600,951.22	-1,317,575.23	-15,237,419.72	-16,554,994.95
EQUITIES	163,481,799.59	0.00	163,481,799.59	0.00	163,481,799.59

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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
FIXED INCOME / BONDS	0.00	134,554,796.12	134,554,796.12	291,178,759.24	425,733,555.36
CASH / RECEIVABLES / PAYABLE	195,967.10	1,614,513.57	1,810,480.67	6,445,689.60	8,256,170.27
	164,961,142.68	133,568,358.47	298,529,501.15	282,387,029.12	580,916,530.27
VARIANCE NOTE 1: Rounding	0.00	0.00	0.00	0.00	0.00
TOTAL as at 31/12/2010	164,961,142.68	133,568,358.47	298,529,501.15	282,387,029.12	580,916,530.27

GOVERNMENT OF KIRIBATI - STATEMENT No. XX

INVESTMENT WITH HSBC AND NICAM ASSET MANAGEMENT FOR THE

'YEAR ENDED 31ST DECEMBER, 2010

'OMPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2010	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
ASSET				
'RAGE COST OF EQUITIES	0.00	0.00	0.00	0.00
'RAGE COST OF FIXED INCOME	163,481,799.59	0.00	0.00	163,481,799.59
'RAGE COST OF LOCAL CASH	0.00	134,554,796.12	291,178,759.24	425,733,555.36
RAGE COST OF SHORT TERM INVESTMENTS	0.00	0.00	1,141,768.19	1,141,768.19
H BALANCE	0.00	0.00	8,521,996.49	8,521,996.49
DEND TAX REFUND RECEIVABLE	1,351,579.77	997,293.41	1,749,258.04	4,098,131.22
DENDS RECEIVABLE	6,660.93	0.00	5,165.56	11,826.49
'REST RECEIVABLE	174,680.47	0.00	0.00	174,680.47
'REST TAX REFUND RECEIVABLE	0.00	1,614,138.74	6,433,153.04	8,047,291.78
ER ASSETS	0.00	0.00	7,371.00	7,371.00
EIVABLE FOR CURRENCY EXCHANGED	14,625.70	374.83	0.00	15,000.53
EIVABLE FOR INVESTMENTS - OPTIONS	0.00	252,616,237.22	69,291,218.12	321,907,455.34
EIVABLE FOR INVESTMENTS SOLD	0.00	0.00	0.00	0.00
'K LENDING RECEIVABLES	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
L ASSETS	**165,029,346.46**	**389,782,840.32**	**378,328,689.68**	**933,140,876.46**
LIABILITIES				
END PAYABLE - SHORT POSITION	0.00	0.00	0.00	0.00
END TAX WITHHELD LIABILITY	0.00	0.00	0.00	0.00
'EST TAX WITHHELD LIABILITY	0.00	0.00	0.00	0.00
'IN VARIATION PAYABLE	0.00	0.00	0.00	0.00
R LIABILITIES	0.00	0.00	0.00	0.00
3LE FOR CURRENCY EXCHANGED	0.00	252,616,237.11	69,291,218.12	321,907,455.23
3LE FOR CUSTODIAN FEE	0.00	0.00	0.00	0.00
3LE FOR INVESTMENT - OPTIONS	0.00	0.00	0.00	0.00
3LE FOR INVESTMENTS PURCHASED	0.00	0.00	0.00	0.00
ILE FOR MANAGEMENT FEE -EXPENSE	0.00	0.00	0.00	0.00
. LIABILITIES	**0.00**	**252,616,237.11**	**69,291,218.12**	**321,907,455.23**
3SETS EXCLUDING MARKET	**165,029,346.46**	**137,166,603.21**	**309,037,471.56**	**611,233,421.23**
'EALIZED APPRECIATION / DEPRECIATION				
'REIGN CASH POSITIONS	-4,587.23	-2,221.89	-20,447.52	-27,256.64
'RWARDS CONTRACTS	0.00	3,678,845.81	-330,698.97	3,548,146.84
'TURES	0.00	0.00	0.00	0.00
OME RECEIVABLES	-4,382.14	-2,984.89	0.00	-7,367.03
ESTMENT & FX RECEIVABLES	0.00	0.00	0.00	0.00
ESTMENTS	-59,234.41	-7,471,883.66	-26,299,295.95	-33,830,414.02
ESTMENTS & FX PAYABLE	0.00	0.00	0.00	0.00
'IONS	0.00	0.00	0.00	0.00
UNREALIZED SEC CUR APPR/DEP	**-68,203.78**	**-3,598,244.63**	**-26,650,442.44**	**-30,316,890.85**
'NET ASSETS AT MARKET	**164,961,142.68**	**133,568,358.58**	**282,387,029.12**	**580,916,530.38**
INCOME - CURRENT PERIOD				
'ATION COST EXERCISED OPTIONS	0.00	0.00	0.00	0.00

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COMPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2010	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
AVERAGE CURRENCY GAIN / LOSS	-6,135,113.75	-4,426,600.64	-314,666.61	-10,876,381.00
AVERAGE GN/LS ON CURRENCY DISPOSAL	7,926.08	-11,390.67	82,038.09	78,573.50
AVERAGE SECURITY GAIN / LOSS	3,056,844.70	1,151,296.46	-2,652,943.10	1,555,198.06
CURRENCY GN/LS ON DIVIDEND RECEIVED	-12,801.37	0.00	0.00	-12,801.37
CURRENCY GN/LS ON FX SETTLEMENTS	-71,735.54	13,420,949.03	-297,976.86	13,051,236.63
CURRENCY GN/LS ON INTERST RECEIVED	0.00	71.48	0.00	71.48
CURRENCY GN/LS ON MARGIN VARIATION	0.00	0.00	0.00	0.00
CURRENCY GN/LS ON SECURITY SETTLEMENTS	75,923.60	-239,344.63	-2,523,404.19	-2,686,825.22
CURRENCY GN/LS ON TAX REFUND RECEIVED	0.00	0.00	0.00	0.00
DISTRIBUTION INCOME	0.00	0.00	0.00	0.00
DIVIDEND INCOME	4,282,570.43	0.00	0.00	4,282,570.43
DTC REFUND INCOME	0.00	0.00	0.00	0.00
NTEREST INCOME	6,036.64	5,361,378.19	13,516,339.46	18,883,754.29
MARGIN VARIATION	0.00	0.00	0.00	0.00
MISCELLANEOUS INCOME	0.00	0.00	0.02	0.02
OPTION INCOME	0.00	0.00	0.00	0.00
OTHER INCOME	57,636.82	1,402.48	0.00	59,039.30
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	**1,267,287.61**	**15,257,761.70**	**7,809,386.81**	**24,334,436.12**
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	155,329.48	61,082.69	103,644.02	320,056.19
DIVIDEND WITHHOLDING TAX EXPENSE	224,711.07	0.00	0.00	224,711.07
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	0.00	-1,809.77	-62,098.15	-63,907.92
MALAYSIAN NEGATIVE INTEREST	0.00	0.00	0.00	0.00
MANAGEMENT FEES	299,257.97	292,785.61	331,671.29	923,714.87
OPTION EXPENSE	0.00	0.00	0.00	0.00
OTH EXPENSES	555.70	0.00	0.00	555.70
STAMP DUTY	0.00	0.00	0.00	0.00
TOTAL EXPENSES	**679,854.22**	**352,058.53**	**373,217.16**	**1,405,129.91**
NET INCOME - CURRENT PERIOD	**587,433.39**	**14,905,703.17**	**7,436,169.65**	**22,929,306.21**
CAPITAL				
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	18,150,000.00	0.00	0.00	18,150,000.00
CASH TRANSFERS OUT	0.00	-18,150,000.00	0.00	-18,150,000.00
CONTRIBUTIONS	5,900,000.00	0.00	0.00	5,900,000.00

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MPUTATION OF NET ASSET VALUE AS AT 31ST DEC 2010	HSBC Q4G1 $	HSBC Q4G2 $	NICAM Q4G3 $	TOTAL
ꝚLEDGER CURRENCY TRABSFERS OUT	-118,987,433.50	-2,283,538,701.01	-922,317,065.69	-3,324,843,200.20
ꝚLEDGER CURRENCY TRANSFERS IN	118,987,433.50	2,283,538,701.01	922,317,065.69	3,324,843,200.20
NCOME - CURRENT YEAR	587,433.39	14,905,703.17	7,436,169.65	22,929,306.21
NTERLEDGER TRANSFERS	0.00	0.00	0.00	0.00
Ꝛ YEARS AT COST	141,391,913.07	143,710,899.93	315,424,927.26	600,527,740.26
ƆRAWALS	-1,000,000.00	-3,300,000.00	-13,000,000.00	-17,300,000.00
L CAPITAL	**165,029,346.45**	**137,166,603.10**	**309,861,096.91**	**612,057,046.47**
ALIZED APPRECIATION/DEPRECIATION	-68,203.78	-3,598,244.63	-26,650,442.44	-30,316,890.85
APITAL AT MARKET:	**164,961,142.68**	**133,568,358.47**	**283,210,654.47**	**581,740,155.62**

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APPENDIX SIX: GOVERNMENT MAJOR REVENUES 2010 (extracted from divisions' records)

Month	Import duty	Fishing license	Business tax	PAYE tax	Hotel tax	Total
January	1,106,449.38	3,199,907.13	759,339.52	420,616.74	4,587.31	5,490,900.08
February	965,214.26	2,092,066.20	1,618,377.30	500,784.36	6,723.42	5,183,165.54
March	1,258,049.27	4,044,648.09	65,607.89	429,104.34	7,113.01	5,804,522.60
April	709,895.66	112,648.09	598,586.55	450,999.06	8,049.80	1,880,179.16
May	1,017,079.69	3,218,247.79	113,757.93	427,135.20	7,304.32	4,783,524.93
June	1,367,898.39	4,180,482.14	192,306.19	515,858.33	9,895.02	6,266,440.07
July	985,259.44	1,450,952.73	1,261,690.12	652,594.12	4,292.86	4,354,789.27
August	995,339.17	2,168,069.17	169,870.01	551,647.12	2,930.59	3,887,856.06
September	1,036,070.04	1,731,208.62	2,419,708.16	498,825.46	8,220.37	5,694,032.65
October	961,573.57	547,172.88	762,508.67	501,381.32	6,305.79	2,778,942.23
November	1,116,076.34	14,893,774.31	202,862.25	487,887.95	3,985.60	16,704,586.45
December	1,586,982.93	4,037,912.81	132,718.69	697,724.22	5,616.67	6,460,955.32
Total	**13,105,888.14**	**41,677,089.96**	**8,297,333.28**	**6,134,558.22**	**75,024.76**	**69,289,894.36**

APPENDIX SEVEN: SPECIAL FUND BALANCES- STATEMENT NO.V

GOVERNMENT OF KIRIBATI - STATEMENT No. V

Statement of Other Special Fund Balances

as at 31st December 2010

FUNDS IN HANDS OF ACCOUNTANT GENERA

FUNDS		Balance per Balance Sheet at 2009	Receipts Year Ending 2010	Payments Year Ending 2010	Balance per Balance Sheet at Year End 2010	Represented By		
						Stabex	Other	Total
Coinage Security Special Fund	F0070000010A	-318,983.40	-25707.22	2254.51	-342,436.11	0.00	-342,436.11	-342,436.11
Kaoki Mange Special Fund	F0070000030A	-149,816.08	-196952.21	240923.85	-105,844.44	0.00	-105,844.44	-105,844.44
Import Levy Fund	F0070000061A	-40,040.04	-2805982.91	2699733.42	-146,289.53	0.00	-146,288.61	-146,288.61
Stabex Special Fund	F0070000062A	-188,649.48	-306162.67	433996.6	-60,815.55	-60,815.55	0.00	-60,815.55
No 6 Stabex Fund	F0070000063A	-512,506.13	-1220808.19	1357000	-376,314.32	-376,314.32	0.00	-376,314.32
Local Stabex Fund	F0070000064A	3,666,937.46	-5485705.34	5441903.72	3,623,135.84	3,623,135.84	0.00	3,623,135.84
Leper Trust Board	F0070000066A	-6,496.47	-3500	0	-9,996.47	0.00	-9,996.47	-9,996.47
Dai Nippon Causeway Fund	F0070000067A	-2,460,926.20	-252753.24	93499.54	-2,620,179.90	0.00	-2,620,179.87	-2,620,179.87
Esrow Fund	F0070000068A	-358,377.15	0	291840.39	-66,536.76	0.00	-66,536.76	-66,536.76
TOTAL per Balance Sheet (Statement I)		-368,857.49	-10,297,571.78	10,561,152.03	-105,277.24	3,186,005.97	-3,291,282.26	-105,276.29

FUNDS NOT IN HANDS OF ACCOUNTANT GENERA

Plant and Vehicle Unit (Note1)	40,019	2,187,434	2,209,588	17,865	N/A	N/A	N/A

Accountant General

Note(1) : The Plant and Vehicle Special Fund operate on a seperate bank account, hence it is reported seperately from above special funds

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