REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Development Bank of Kiribati
For the Year Ended 31st December 2016

Kiribati National Audit Office
August 2017

KIRIBATI NATIONAL AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati

Tel: (686)21118
Fax: (686)21250
Email: infor@knao.gov.ki

Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

To the Readers of
Development Bank of Kiribati Financial Statements
for the year ended 31 December 2016

The Auditor-General, Mrs Matereta Raiman is the auditor of Development Bank of Kiribati (DBK).

The audit covered the Bank's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1976, SOE Act, 2013 and the DBK Act 1986 that apply to the financial statements of the DBK for the year ended 31 December 2016.

DBK Board of Director's Responsibility.

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements in accordance with Generally Accepted Accounting Practice in Kiribati, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

It is my responsibility to express an independent opinion on these Financial Statements and reporting that opinion to you as required under the Public Finance (Control and Audit) Ordinance 1976. The audit was conducted in accordance with International Standards of Supreme Audit Institutions.

Basis for Adverse Opinion

I am unable to satisfy myself as to the correctness of the Financial Statements of DBK for the year ended 31st Dec, 2016 due to the following:

- Cashflow Statement figures for Operating activities cannot be substantiated hence raising doubt as to the accuracy of the Cashflow Statement as presented.
- We were unable to confirm balances for Current Loans, Non-Current Loans and Interest revenue due to the inability of the Loan system to produce the annual

interest revenue report. In order to complete our testing on the said loans we require total interest revenue balance as per Loan system but it was not available.

- We awaited provision of such record by the administrators of the Loan system from Fiji through DBK, but were never received, so this was a limitation of scope.

- We were concerned that DBK has no written policy for Disposal of Fixed Assets to actually provide guidance on how to carry out disposal in line with Government regulations/policies and relevant best practices.
- DBK failed to enforce policy on imprest retirement, hence allowing Staff imprest outstanding to increase from $19,658 in 2015 to $29,599.05 in 2016.
- We were concerned that the payment of Management's Responsibility and Entertainment allowance did not follow the condition of payment approved in Board meeting numbered BMS 1515 and BMR 1516 which allowed $1,000 to be included in their pay and the remaining to be paid at year end after performance being assessed as satisfactory. One management staff has an annual salary of $23,165 hence it was noted in the Contract a total annual salary of $19,164.3. The difference of $4000 includes a payment of Responsibility allowance in full.

Adverse Opinion.

Because of the significant effects of the matters and the limitation of scope described in the Basis for Adverse Opinion paragraph above, the Financial Statement of DBK for the year ended 31st Dec, 2016 **DO NOT** give a true and fair view nor in conformity to the Generally Accepted Accounting practice in Kiribati. An Adverse Opinion was therefore issued on the Financial Statements.

The audit was completed on 22 August, 2017, and was the date at which our opinion was expressed.

Report on other Legal and Regulatory Requirements

DBK lodged its Financial Statement on 1st March, 2017, however there was not sufficient time to complete the audit by 31st March 2017 as required by Sec. 20 of SOE Act, 2013. To be able to complete the audit before the due date, we wanted Financial Statements to be lodged for audit by mid-February at the latest.

Independence

When carrying out the audit we followed the independence requirements stipulated under section 114 (4) of the Kiribati Constitution and the requirements of the International Standards of Supreme Audit Institutions.

Other than the audit, we have no relationship with or interests in the Bank.

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Mrs. Matereta. Raiman.
Auditor General
Kiribati National Audit Office

Date: 22 August, 2017

DEVELOPMENT BANK OF KIRIBATI

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2016

DEVELOPMENT BANK OF KIRIBATI
BALANCE SHEET
AS AT 31 DECEMBER 2016

	NOTES	2016	2015
CURRENT ASSETS			
Bank & Cash	4	211,751	521,175
Current Loans (debtors)	5	8,517,102	6,445,777
Debtors	6	39,317	26,556
Prepayments	6	17,922	17,922
		8,786,091	7,011,430
less **CURRENT LIABILITIES**			
Creditors	14	199,241	178,174
Revolving Fund - Agent's M/Cycle	15	14,528	14,528
Interest on ADB Loans	17	250,017	236,766
Loans Overpayments	18	293,239	266,489
ADB Loan - Current Portion	12	144,951	144,951
Unearned Interest	19	1,474,022	
		2,375,997	840,908
WORKING CAPITAL		**6,410,094**	**6,170,522**
add **NON CURRENT ASSETS**			
Non Current Loans	5	3,741,362	3,247,072
Motor Vehicles, Furniture etc.	3	522,277	276,486
Long Term loans	7	0	0
		4,263,639	**3,523,558**
less **NON CURRENT LIABILITIES**			
Government Loan ADB	12	1,180,070	1,180,070
EIB Loan	12	0	0
KPF Investment	12	1,744,375	1,741,290
Educational Loan Scheme	12	638,641	292,448
Artisianal Fisheries Project	12	500,000	500,000
		4,063,086	3,713,808
NET WORTH		**6,610,648**	**5,980,272**
Represented by:			
Paid Up Capital		4,939,940	4,939,940
Assets Replacement fund reserve		112,000	100,000
Accumulated Profits	8	1,492,625	874,250
New Zealand Grant		66,082	66,082
		6,610,648	**5,980,272**

The accompany notes form part of these financial statements. 0.00

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Chairman

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Director

DEVELOPMENT BANK OF KIRIBATI
INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
Income	2,026,581	1,551,880
Expenditure	1,387,629	1,219,051
Net Profit/(Loss) Before Prior Period Items	638,952	332,830
Prior Period Items	20,591	84,320
Net Profit/(Loss) after Prior Period Items	618,361	417,150
Accumulated Profit/(Loss) at 1 Jan 2016	874,264	457,100
Accumulated Profit/(Loss) at 31 December 2016	1,492,625	874,264

The accompanying notes form parts of these Financial statements.

DEVELOPMENT BANK OF KIRIBATI
CASH FLOW STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2016

	(Notes)	2016
		$
Cash Flow from Operatins		
Cash received from operations		3,367,120
Operating expenses		-954,469
Net Cash Flow from operations		**2,412,651**
Cash Flow from Investing		
Net increased in loans		-2,709,387
Capital expenditure		-372,900
Proceed from sale of assets		27,251
Artisianal Fisheries Project		0
Educational loan scheme		346,193
Net (Increase) in loan		0
Proceed from Long term Loans		0
Net Cash Flows from investing		**-2,708,842**
Cash Flow from Financing		
Share Capital (student Loan Scheme)		0
Repayment of borrowings		0
Loan proceed from KPF		0
Interest paid		-86,127
Government Grant		72,876
Total cash received/(used) from financing activities		-13,251
Net (Decrease)/Increase in cash/cash equivalent		-309,442
Opening Cash Balance 1/1/16		521,175
Closing Cash Balance 31/12/16	(A)	211,751

(A)- Details of Cash and Cash Equivalent as at 31/12/15	
Cash Float	200
Cheque Account - Bairiki	106,153
Cheque Account - Kiritimati	77,892
Interest Bearing Deposit	18,516
Bank Account number 3	3,105
Cash in Transit	5,884
	211,751

(B) - Reconciliation of cash flow from operating activities to net profit	
Net Profit for the year	618,361
Depreciation	127,109
Government grant	-72,876
Interest paid	89,212
Prior period items	20,591
Gain on Disposal	27,255
Closing fees	
Provision Current Doubful loan	143,771
(Increase)/Decrease Prepayment	0
(Incease)/Decrease in Debtors	-12,761
(Incease)/Decrease in Lterm loan	0
(Incease)/Decrease in provision	0
(Incease)/Decrease in current loan	
(Decrease)/Increase in Creditors	1,456,904
(Decrease)/Increase in Revolving fund	0
(Decrease)/Increase in Sinking fund	12,000
(Decrease)/Increase in KPF Investment	3,085
	2,412,650

DEVELOPMENT BANK OF KIRIBATI
DETAILED INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

INCOME	NOTES	2016	2015
Interest - Commercial Loans		411,662.45	390,025.79
Interest - Housing Loan		72,952.25	60,516.03
Interest - Personal Loan		981,102.91	545,260.01
Interest - Bank Deposit		127.28	125.80
Interest - Staff House Loan		16,318.57	13,096.65
Interest - Staff Personal Loan		5,128.98	4,775.36
Interest - Penalty		1,013.08	3,154.80
Loan Fees		125,004.48	135,818.90
Application Fees		36,397.00	31,015.00
Registration Fees		5,560.00	7,500.00
KPF Pledge Fees		9,950.00	7,700.00
Refinancing Fees		87,966.05	80,921.80
Student loan commission		0.00	4,471.47
Loan Administration Fees		103,666.84	118,310.00
Arrears Fees		37,716.49	41,366.31
Recovery Cost		0.00	4,490.25
Government Grant		72,876.12	72,876.12
Gain on Disposal		27,255.00	545.00
Closing fees		26,800.00	25,425.00
Sundry Income		5,083.05	4,486.00
		2,026,580.55	1,551,880.29
EXPENDITURE			
Salaries & Staff Expense	9	652,462.54	591,835.54
Workmens Compensation		8,499.96	8,499.96
Leave Grant		59,050.00	60,550.00
Directors		46,081.85	41,744.12
Entertainment		0.00	0.00
Repair & Maintenance - Motor Vehicle		3,479.80	7,245.06
Repair & Maintenance - Office Equipment		3,487.15	2,439.15
Repair & Maintenance - Computer		570.00	0.00
Transportation		23,325.27	26,432.88
Office Rent	16	40,712.66	40,711.76
Electricity		24,301.57	26,929.65
Telephone, Fax and Emails		20,131.80	21,556.53
Postage & Telegram		2,007.80	1,978.43
Printing and Stationery		16,333.71	15,665.97
Overseas Travel		14,009.00	0.00
Subscriptions		304.00	3,528.92
Advertising		3,709.10	1,825.23
Bank Charges		5,521.58	6,608.30
Provision for Loans Specific	11	143,771.00	38,471.25
Depreciation	3	127,108.60	83,189.17
Outer Island Travel		34,688.67	63,522.44
Operating Cost - Outer Is, Agencies		3,476.37	0.00
Interest on Borrowing	12	89,211.91	92,150.47
Loan Adjustments		51,503.84	8,573.47
Audit Fees		0.00	2,500.00
Rebate Interest expense		0.00	0.00
Research and development		1,139.50	25,580.65
Silver Jubilee		0.00	0.00
Insurance Coverage		11,499.96	11,499.96
Sundry Expense	13	21,240.93	36,011.60
Total Expenditure		1,387,628.57	1,219,050.51
Operating Profit/(Loss) before Prior Period Items		638,951.98	332,829.78
Prior Period Items	10	20,590.67	84,319.81
Net Profits / (Loss) after Prior Period Items		618,361.31	417,149.59

DEVELOPMENT BANK OF KIRIBATI

NOTES TO THE FINANCIAL STATEMENTS

1 The Development Bank of Kiribati was established by the Development Bank Act 1986 for the provision of long, medium and short term loans as well as the required technical assistance to promote the efficient organization and conduct of business undertakings.

2 Principal Accounting Policies

2.1 ACCOUNTING CONVENTION

The Financial Statements have been prepared under the historical cost convention.

2.2 CURRENCY

The Financial statements are expressed in Australian Dollars.

2.3 DEPRECIATION

Depreciation is calculated to write down fixed assets value in equal installments using the following rates:

Furniture & Fittings	20%
Computer Upgrade	20%
Office Improvement	33.33%
Motor Vehicle	33.33%
Fence security Area	33.33%

2.4 INTEREST AND INVESTMENT INCOME

Interest on loans and income from investments are included in the income and expenditure statement in the accounting period in which they are due.

2.5 TURNOVER

Turnover comprises interests, fees and sundry income.

3 Fixed Assets

	Motor Vehicle	Office Furn & Equip.	Fence Sec. Area	Computer Upgrade	Container	Office Improvement	Total
Cost at 1 Jan 2016	246,981	432,830	42,308	218,269	4,546	11,653	956,587
Additions	109,212	16,632		247,055			372,900
Disposal / Adjustment	-110,659						-110,659
	245,535	449,462	42,308	465,325	4,546	11,653	1,218,828
Depreciation							
At 1 January 2016	110,684	368,857	37,807	146,555	4,546	11,653	680,101
Charge	74,218	18,338		34,553			127,109
Disposal / Adjustment	-110,659						-110,659
	74,243	387,195	37,807	181,107	4,546	11,653	696,551
Book Value							
At 31Dec 2016	171,292	62,267	4,501	284,217	0	0	522,277
At 01 Jan 2016	136,298	63,973	4,501	71,715	0	0	276,486

	2016	2015
4 Cash & Bank		
Cash on Hand - Petty Cash	200.00	199.95
Bank Account - No. 1	106,153.0	409,766.9
Bank Account - Kiritimati	77,892.2	73,036.5
Bank Account - IBD	18,515.9	18,388.6
Bank Account -No 3	3,105.1	1,356.9
Electronic Clearing account	0.0	0.0
Cash in Transit	5,884.4	18,426.3
	211,751	521,175

Cash in transit Break down		
Abaiang agency	1,292	1,292
Abemama agency	1,875	1,875
Beru agency	-475	583
Nikunau agency	-957	1,946
Onotoa agency	166	993
Marakei agency	56	281
Fanning agency	-5	1,583
Tabnorth agency	601	1,479
Butaritari agency	80	910
Tamana agency	0	0
Nonouti agency	632	3,468
Maiana agency	224	542
Arorae agency	873	873
Kuria agency	1,512	-1,150
Aranuka agency	10	3,751
	5,884	18,426

5 Non Current Loans (maturity beyond 12 months)		
Commercial	3,295,537	3,516,728
Staff House	248,704	120,909
Staff Personal	39,074	37,862
Personal	1,599,311	842,841
Housing	369,209	395,434
Past Due	0	0
Hardcore	0	0
Total Loans - Non Current Portion	5,551,835	4,913,774
less: Provision for Doubtful Loans	-1,810,472	-1,666,701
	3,741,363	3,247,073
Current Loans		
Commercial	2,696,670	2,574,072
Staff House	89,895	67,650
Staff Personal	54,318	42,619
Personal	4,724,455	3,152,488
Housing	266,678	244,147
Student loan	622,638	287,139
Non Commercial Loan	62,448	77,661
Total Loans - Current Portion	8,517,102	6,445,777
less: Provision for Doubtful Loans		
	8,517,102	6,445,777
Total Loans - Current and Non Current Portion	12,258,465	9,692,849

	2016	2015
6 Debtors		
Vinster	0	0
Loan Deposit	0	0
Unresolved Receivables	0	0
	0	0
less: Provision for Doubtful Debts	0	0
	0	0
Suspense & Clearing a/c		
Salary clearing	5	5
Staff Imprest	29,599	19,659
Others	4,907	-83
Interest on TDs	66	66
Renovation	3,071	3,071
Bounce cheque	1,668	3,837
less: Provision for doubtful debts	0	0
	39,317	26,556
Prepayments		
Deffered Expenditure - Xmas Office Extension	17,922	17,922
Office Rent	0	0
	17,922	17,922
Trade Debtors	57,239	44,478
7 Long Term Loans to Subsidiaries		
OHL	0	0
	0	0
8 Accumulated Profits/(loss)		
Balance at 1 Jan 2015	874,264	457,100
Plus Profit/(loss) for the year	618,361	417,150
	1,492,625	874,264
9 Salaries & Staff Benefits		
Salaries & wages	504,408	503,620
Overtime	14,953	9,899
Staff allowances	81,017	17,416
Provident fund	38,300	39,071
Staff expense	2,000	0
House Rent subsidy	11,785	21,830
	652,463	591,836

10 Prior Period Items

	2016	2015
Payment for Teniti Tutu Long Service	8,306	-101,112
Computer Maintenance for Xmas Branch	245.55	0
Imprest Retired Bwatiwate and Naata	9,306	2,022
Outstanding Invoice for 2015 paid in 2016	2,616	
Outstanding leave grant for Boata Tauranga	117	7,689
		5,000
		2,017
		64
	20,591	-84,320

11 Provision for Doubtful Loans

Provision for Doubtful Loans				2016	2015
Active Loans					
Commercial, Personal, Home Loans	10,378,268	@	5%	518,913	411,274
Staff Personal	85,724	@	2%	1,714	1,456
Student Loan	622,638	@	2%	12,453	5,743
Staff House	337,410	@	2%	6,748	3,747
Total Provision Required				539,829	422,220
less Provision already provided				422,220	367,374
Write off					
additional provision required/(write back)				117,609	54,846
Past Due Loans					
Pastdue	2,498,642	@	45%	1,124,389	1,098,227
Total Provision Required				1,124,389	1,098,227
less Provision already provided				1,098,227	1,113,738
Write off				0	0
additional provision required/(write back)				26,162.33	-15,511.43
Hard Core Loans					
Hard Core	146,255	@	100%	146,255	146,255
Total Provision Required				146,255	146,255
less Provision already provided				146,255	147,118
Write off				0	0
additional provision required/(write back)				0.00	-863.44
Total Provision Required for the Year				1,810,472	1,666,701
less Provision already provided				1,666,701	1,628,230
Additional Provision Required/(write back)				143,771	38,471

	2016	2015
12 Long Term Loans		
Government Loan - ADB		
Balance 1 st January 2016	*1,352,021	1,325,021
Payment to Government	-86,126	-86,126
Interest Due - 2016 (6.5%)	86,126	86,126
	1,352,021	1,325,021
Current Portion	144,951	144,951
	1,207,070	1,180,070

	2016	2015
EIB Loan		
Balance at 1 st January 2015	-0	223,547
Disbursement from EIB	0	0
Payment to EIB	0	-223,547
Adjustments (Gain on Exrate write off to PPI)	0	0
Interest Due - 2015 (1% p.a)	0	0
	-0	-0

* *EIB loan fully repaid in January 2015*

Fund Held in Trust

	2016	2015
KPF Investment		
Balance at 1 st January	1,741,290	1,738,275
Disbursement from KPF	0	0
Payment to KPF	0	0
Interest Due - 2014 (6% on used funds)	3,086	3,015
	1,744,375	1,741,290
Educational Loan Scheme	638,641	292,448
Artisanal Fisheries Project	500,000	500,000

	2016	2015
13 Sundry Expense		
Training	9,125	16,190
Promotions	4,665	3,850
Janitorial	2,162	1,957
Loan adjustments-sundry expense	0	1,669
Bill of Sale	123	1,675
Pledge Expense	5,000	8,000
Sundry Expenses	166	336
Legal and Lawyer fees	1.00	2,335.00
	21,241	36,012

	2016	2015
14 Greditors		
Greditors	5,270	4,542
Term Deposits	549	549
Payroll Accruals Payable	10,251	5,434
DBK Staff Deduction Clearing	109	0
Audit fees Payable	0	7,500
	16,179	12,591
Suspense & Clearing a/c		
Suspense Re: H/Rent Clearence	0	0
Suspense Re: Xmas Branch H	8,948	8,948
Suspense Re: Bank errors	18,246	33,188
Suspense Re: Staff fund	-6,375	-5,825
Suspense Re: Unclaimed cheques	130,089	16,100
Suspense Re: Phone Clearence	0	0
Suspense Re: Loan Refund	14	14
Suspense Re: Missing Telmo	0	0
Suspense Re: Vinstar Expenses	0	0
Suspense Re: Commercialisation Project	7,647	7,647
Suspense Re: Project development	0	0
Suspense Re: Loan Adjustments	24,766	100,350
Suspense Re: Unknown	-273	-273
	183,062	165,583
Total Creditors	199,241	178,174

15 Revolving Fund - Agent's M/ycle		
Abaiang agent	865	865
Abemama agent	865	865
Beru agent	865	865
Nikunau agent	865	865
Onotoa agent	982	982
Marakei agent	865	865
Fanning agent	865	865
Tabnorth agent	865	865
Butaritari agent	865	865
Tamana agent	865	865
Nonouti agent	865	865
Arorae Agent-	1,092	1,092
Aranuka Agent-	1,092	1,092
Maiana agent	865	865
Marakei agent	865	865
Nikunau agent	982	982
	14,528	14,528

	2016	2015
16 Office Rent		
Head Office & TabNorth ($50 Monthly)	40,713	40,712
Notional Rent - Xmas Branch	0	0
	40,713	40,712

17 Interest on ADB Loans	250,017	236,766
18 Loans Over Payments	293,239	266,489
19 Unearned Interest	1,474,022	0