REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Development Bank of Kiribati
For the Years Ended 31st December 2017

Kiribati Audit Office
August 2018

KIRIBATI AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati

Tel1: (686)75021118
Tel2: (686)75021335
Email: support@kao.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 2017

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

The audit covered the Bank's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1976 and the DBK Act 1986 that apply to the financial statements of the DBK for the years ended 31 December 2017.

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) Act 1976. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI).

Qualification

The followings were issues found not satisfactorily explained by management therefore formed the basis of our qualified opinion:

- Absence of the Bank Audit Certificate for DBK Bank Accounts for year ended 2017. Hence, made it not possible for audit team to carry out further comparative analysis.
- The Loan Management System (LMS) and MYOB GL figures were not tallied thus resulted in reporting the variances of $27k and $19k for Personal and Commercial Loans respectively, re table appended below.

Establish fee-personal			
Month	LMS figure	GL MYOB figure	variances
Jan	5,479.56	3,669.51	1,810.05
Feb	5,810.63	3,685.87	2,124.76
Mar	6,031.81	3,644.97	2,386.84
Ap	6,347.39	5,068.83	1,278.56
May	15,932.19	10,874.63	5,057.56
Jun	11,828.59	9,050.24	2,778.35
Jul	13,094.86	11,004.85	2,090.01
Aug	18,181.89	15,520.07	2,661.82
Sep	5,969.43	4,365.12	1,604.31
Oct	23,265.07	21,753.93	1,511.14
Nov	5,492.46	2,882.19	2,610.27
Dec	5,356.48	3,526.57	1,829.91
Total	122,790.36	95,046.78	27,743.58

Establish fee-commercial			
Month	LMS figure	GL MYOB figure	variances
Jan	990.00	-	990.00
Feb	1,420.31	1,390.31	30.00
Mar	3,683.25	3,606.75	76.50
Ap	1,823.80	1,823.80	-
May	10,054.07	3,128.71	6,925.36
Jun	5,411.03	5,038.62	372.41
Jul	7,128.62	5,966.29	1,162.33
Aug	8,599.41	4,705.66	3,893.75
Sep	7,263.64	6,110.33	1,153.31
Oct	10,056.42	10,004.07	52.35
Nov	8,443.58	3,798.33	4,645.25
Dec	3,442.79	3,246.44	196.35
Total	68,316.92	48,819.31	19,497.61

- DBK still had not drawn up it written fixed assets disposal policy, thus disposal of fixed asset would still be carried out without the proper guideline.
- An incorrect depreciation rate used on Motor Vehicles of 33.3%. The correct depreciation rate on Motor Vehicles is 20%.

Qualified Audit Opinion.

In my opinion, **except for** the effects of the matters referred to in the qualification paragraph above, the financial statements of the DBK present fairly, in all material respects the financial affairs of the Bank as at 31 Dec, 2017, its results and cashflow for the year then ended in accordance with a Generally Accepted Accounting Principles.

Emphasis of the Matter

I would like to draw attention to the matter described below:

The balance for Past Due Loans Account had kept accelerating over the years as could be seen in the Financial Statement Notes 11. However, the audit had ascertained that most of the loans appearing under the above account were substantial and thus raised concerns on the recoverable actions as some of which were still never recovered to date, as could be evidenced in the table provided below.

Account #	Client Name	Approved Date	Opening Bal	Int Charged	Cash Rcvd TMth/repayment	Closing Bal
Commercial						
9306	BIITA WANIKAIE	11/09/1997	28,400.15	-	-	28,400.15
10081	AKINETI INATIO	27/05/1999	20,780.23	211.79		20,997.02
11713	AMMS LTD	23/01/2003	258,509.22	-	-	258,509.22
13708	BANIKARAWA TETANGARE	12/04/2006	54,011.74	-	-	54,011.74
			361,701.34	211.79	-	361,918.13

The audit also notes that based on the years of approval all above accounts are passed the Limitation Act of 6 years, therefore, it is of paramount importance that

DBK Management should take note of this seriously as such values reflected in the FS are also cash tied up in the hands of BDK clients and of course had also adversely affected the Cash Flow of the Corporation.

The audit was completed on 29th June 2018, and was the date at which our opinion was expressed.

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 Auditing.

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

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Date:29/06/2018

Mrs. Matereta. Raiman.
Auditor General

DEVELOPMENT BANK OF KIRIBATI

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2017

DEVELOPMENT BANK OF KIRIBATI
BALANCE SHEET
AS AT 31 DECEMBER 2017

	NOTES	2017	2016
CURRENT ASSETS			
Bank & Cash	4	386,339	211,751
Current Loans	5	8,664,961	8,517,102
Debtors	6	44,742	39,317
Prepayments	6	17,922	17,922
		9,113,964	8,786,091
less CURRENT LIABILITIES			
Creditors	14	222,397	199,241
Revolving Fund - Agent`s M/Cycle	15	14,528	14,528
Interest on ADB Loans	17	263,266	250,017
Loans Overpayments	18	340,656	293,239
ADB Loan - Current Portion	12	144,951	144,951
Unearned Interest	19	2,116,837	1,474,022
		3,102,635	2,375,997
WORKING CAPITAL		6,011,329	6,410,094
add NON CURRENT ASSETS			
Non Current Loans	5	5,712,519	3,741,362
Motor Vehicles, Furniture etc.	3	632,968	522,277
Long Term loans	7	0	0
		6,345,487	4,263,639
less NON CURRENT LIABILITIES			
Government Loan ADB	12	1,180,070	1,180,070
EIB Loan	12	0	0
KPF Investment	12	1,746,930	1,744,375
Educational Loan Scheme	12	1,418,472	638,641
Artisianal Fisheries Project	12	500,000	500,000
Tobwaan Tekrikirake Loan Scheme	12	10,000	
		4,855,472	4,063,086
NET WORTH		7,501,343	6,610,648
Represented by:			
Paid Up Capital		4,939,940	4,939,940
Assets Replacement fund reserve		126,600	112,000
Accumulated Profits	8	2,368,721	1,492,625
New Zealand Grant		66,082	66,082
		7,501,343	6,610,648

debtors

The accompany notes form part of these financial statements.

.... Chairman

.... Director

INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
Income	2,230,784	2,026,581
Expenditure	1,350,452	1,387,629
Net Profit/(Loss) Before Prior Period Items	880,333	638,952
Prior Period Items	4,237	20,591
Net Profit/(Loss) after Prior Period Items	876,095	618,361
Accumulated Profit/(Loss) at 1 Jan 2016	1,492,625	874,264
Accumulated Profit/(Loss) at 31 December 2016	2,368,721	1,492,625

The accompanying notes form parts of these Financial statements.

DEVELOPMENT BANK OF KIRIBATI
CASH FLOW STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2017

	(Notes)	2017
		$
Cash Flow from Operatins		
Cash received from operations		2,791,061
Operating expenses		-946,904
Net Cash Flow from operations		1,844,157
Cash Flow from Investing		
Net increased in loans		-2,210,983
Capital expenditure		-235,164
Proceed from sale of assets		2,555
Artisianal Fisheries Project		0
Educational loan scheme		779,831
Tobwaan Terikirake Loan Scheme		10,000
Net (Increase) in loan		0
Proceed from Long term Loans		0
Net Cash Flows from investing		-1,653,761
Cash Flow from Financing		
Share Capital (student Loan Scheme)		0
Repayment of borrowings		0
Loan proceed from KPF		0
Interest paid		-88,681
Government Grant		72,876
Total cash received/(used) from financing activities		-15,805
Net (Decrease)/Increase in cash/cash equivalent		174,591
Rounded off difference		-2
Opening Cash Balance 1/1/17		211,751
Closing Cash Balance 31/12/17	(A)	386,340

(A)- Details of Cash and Cash Equivalent as at 31/12/15	
Cash Float	200
Cheque Account - Bairiki	113,784
Cheque Account - Kiritimati	27,161
Interest Bearing Deposit	18,644
Bank Account number 3	217,336
Cash in Transit	9,215
	386,340

(B) - Reconciliation of cash flow from operating activities to net profit	
Net Profit for the year	876,096
Depreciation	124,477
Government grant	-72,876
Interest paid	88,681
Prior period items	0
Gain on Disposal	0
Closing fees	
Provision Current Doubful loan	91,967 ?
(Increase)/Decrease Prepayment	0
(Incease)/Decrease in Debtors	-5,425
(Incease)/Decrease in Lterm loan	0
(Incease)/Decrease in provision	0
(Incease)/Decrease in current loan	
(Decrease)/Increase in Creditors	83,822
(Decrease)/Increase in Unearned Interest	642,815
(Decrease)/Increase in Sinking fund	14,600
(Decrease)/Increase in KPF Investment	0
	1,844,157

DEVELOPMENT BANK OF KIRIBATI
DETAILED INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

INCOME	NOTES	2017	2016
Interest - Commercial Loans		424,723.43	411,662.45
Interest - Housing Loan		67,877.89	72,952.25
Interest - Personal Loan		1,100,206.58	981,102.91
Interest - Bank Deposit		127.82	127.28
Interest - Staff House Loan		18,528.17	16,318.57
Interest - Staff Personal Loan		5,793.18	5,128.98
Interest - Penalty		0.00	1,013.08
Loan Fees		149,225.09	125,004.48
Application Fees		37,823.00	36,397.00
Registration Fees		19,740.00	5,560.00
KPF Pledge Fees		13,570.00	9,950.00
Refinancing Fees		92,899.35	87,966.05
Student loan commission		77,052.82	0.00
Loan Administration Fees		95,740.00	103,666.84
Arrears Fees		37,307.46	37,716.49
Recovery Cost		0.00	0.00
Government Grant		72,876.82	72,876.12
Gain on Disposal		189.25	27,255.00
Closing fees		10,500.00	26,800.00
Sundry Income		6,603.41	5,083.05
		2,230,784.27	2,026,580.55
EXPENDITURE			
Salaries & Staff Expense	9	624,710.25	652,462.54
Workmens Compensation		8,499.96	8,499.96
Leave Grant		60,200.00	59,050.00
Directors		57,485.07	46,081.85
Entertainment		1,449.52	0.00
Repair & Maintenance - Motor Vehicle		4,640.01	3,479.80
Repair & Maintenance - Office Equipment		1,353.50	3,487.15
Repair & Maintenance - Computer		817.50	570.00
Transportation		17,471.69	23,325.27
Office Rent	16	40,826.48	40,712.66
Electricity		31,080.40	24,301.57
Telephone, Fax and Emails		19,779.88	20,131.80
Postage & Telegram		1,676.00	2,007.80
Printing and Stationery		12,091.02	16,333.71
Overseas Travel		16,252.00	14,009.00
Subscriptions		4,978.15	304.00
Advertising		3,352.10	3,709.10
Bank Charges		5,822.21	5,521.58
Provision for Loans Specific	11	98,719.02	143,771.00
Depreciation	3	124,477.44	127,108.60
Outer Island Travel		43,206.44	34,688.67
Operating Cost - Outer Is, Agencies		0.00	3,476.37
Interest on Borrowing	12	88,681.39	89,211.91
Loan Adjustments		28,397.21	31,503.84
Audit Fees		5,000.00	0.00
Rebate Interest expense		0.00	0.00
Research and development		25,183.35	1,139.50
Silver Jubilee		0.00	0.00
Insurance Coverage		6,099.96	11,499.96
Sundry Expense	13	18,201.15	21,240.93
Total Expenditure		1,350,451.70	1,387,628.57
Operating Profit/(Loss) before Prior Period Items		880,332.57	638,951.98
Prior Period Items	10	4,237.40	20,590.67
Net Profits / (Loss) after Prior Period Items		876,095.17	618,361.31

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%
Land and Buildings	5%

diminishing value.

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	Land Buildings	Office Improvement	Total
Cost at 1 Jan 2017	245,535	449,462	42,308	465,325	4,546	0	11,653	1,218,828
Additions	3,050	10,314		71,074		150,730		235,168
Disposal /Adjustment	0							0
	248,585	459,776	42,308	536,399	4,546	150,730	11,653	1,453,996
Depreciation								
At 1 January 2017	74,243	387,195	37,807	181,107	4,546	0	11,653	696,551
Charge	70,276	12,988	4,469	36,117		628		124,477
Disposal / Adjustment	0							0
	144,518	400,183	42,276	217,225	4,546	628	11,653	821,028
Book Value								
At 31Dec 2017	104,066	59,593	33	319,174	0	150,102	0	632,968
At 01 Jan 2017	171,292	62,267	4,501	284,217	0	0	0	522,277

	2017	2016
4 Cash & Bank		
Cash on Hand - Petty Cash	200.00	200.00
Bank Account - No. 1	113,784.0	106,153.0
Bank Account - Kiritimati	27,160.8	77,892.2
Bank Account - IBD	18,643.7	18,515.9
Bank Account -No 3	217,335.7	3,105.1
Electronic Clearing account	0.0	0.0
Cash in Transit	9,214.7	5,884.4
	386,339	211,751

Cash in transit Break down	2017	2016
Abaiang agency	1,292	1,292
Abemama agency	1,875	1,875
Beru agency	-60	-475
Nikunau agency	-263	-957
Onotoa agency	108	166
Marakei agency	56	56
Fanning agency	-55	-5
Tabnorth agency	3,072	601
Butaritari agency	80	80
Tamana agency	0	0
Nonouti agency	1,297	632
Maiana agency	948	224
Arorae agency	873	873
Kuria agency	-10	1,512
Aranuka agency	0	10
	9,215	5,884

5 Non Current Loans (maturity beyond 12 months)	2017	2016
Commercial	3,680,222	3,295,537
Staff House	181,969	248,704
Staff Personal	32,754	39,074
Personal	2,882,373	1,599,311
Housing	279,320	369,209
Student Loan	558,320	0
	0	0
Total Loans - Non Current Portion	7,614,959	5,551,835
less: Provision for Doubtful Loans	-1,902,439	-1,810,472
	5,712,520	3,741,363

Current Loans	2017	2016
Commercial	2,822,699	2,696,670
Staff House	89,100	89,895
Staff Personal	63,585	54,318
Personal	4,756,288	4,724,455
Housing	263,820	266,678
Student loan	607,493	622,638
Non Commercial Loan	61,977	62,448
Total Loans - Current Portion	8,664,961	8,517,102
less: Provision for Doubtful Loans		
	8,664,961	8,517,102
Total Loans - Current and Non Current Portion	14,377,481	12,258,465

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1810472
91

	2017	2016
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	22,078	29,599
Others	17,813	4,907
Interest on TDs	66	66
Renovation	3,071	3,071
Bounce cheque	1,708	1,668
less: Provision for doubtful debts	0	0
	44,742	39,317
Prepayments		
Deffered Expenditure - Xmas Office Extension	17,922	17,922
Office Rent	0	0
	17,922	17,922
Trade Debtors	62,663	57,239
7 Long Term Loans to Subsidiaries		
OHL	0	0
	0	0
8 Accumulated Profits/(loss)		
Balance at 1 Jan 2015	1,492,625	874,264
Plus Profit/(loss) for the year	876,095	618,361
	2,368,721	1,492,625
9 Salaries & Staff Benefits		
Salaries & wages	485,194	504,408
Overtime	18,594	14,953
Staff allowances	67,922	81,017
Provident fund	37,064	38,300
Staff expense	1,363	2,000
House Rent subsidy	14,573	11,785
	624,710	652,463

Prior Period Items	2017	2016
Imprest retired	4,151	8,306
Others	86.4	245.55
		9,306
		2,616
		117
	4,237	20,591

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11 Provision for Doubtful Loans

Provision for Doubtful Loans			2016	2016
Active Loans				
Commercial, Personal, Home Loans	12,061,708 @	5%	603,085	518,913
Staff Personal	88,671 @	2%	1,773	1,714
Student Loan	1,165,813 @	0%	0	12,453
Staff House	269,880 @	2%	5,398	6,748
Total Provision Required			610,256	539,829
less Provision already provided			539,829	422,220
Write off				
additional provision required/(write back)			70,428	117,609
Past Due Loans				
Pastdue	2,548,482 @	45%	1,146,817	1,124,389
Total Provision Required			1,146,817	1,124,389
less Provision already provided			1,124,389	1,098,227
Write off			-6,752	0
additional provision required/(write back)			15,676.00	26,162.33
Hard Core Loans				
Hard Core	145,366 @	100%	145,366	146,255
Total Provision Required			145,366	146,255
less Provision already provided			146,255	146,255
Write off			0	0
additional provision required/(write back)			-888.56	0.00
Total Provision Required for the Year			1,902,439	1,810,472
less Provision already provided			1,803,720	1,666,701
Additional Provision Required/(write back)			98,719	143,771

12 Long Term Loans	2017	2016
Government Loan - ADB		
Balance 1 st January 2016	1,352,021	1,352,021
Payment to Government	-86,126	-86,126
Interest Due - 2016 (6.5%)	86,126	86,126
	1,352,021	1,352,021
Current Portion	144,951	144,951
	1,207,070	1,207,070
EIB Loan		
Balance at 1 st January 2015	-0	-0
Disbursement from EIB	0	0
Payment to EIB	0	0
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		
KPF Investment		
Balance at 1 st January	1,744,375	1,741,290
Disbursement from KPF	0	0
Payment to KPF	0	0
Interest Due - 2014 (6% on used funds)	2,555	3,086
	1,746,930	1,744,375
Educational Loan Scheme	1,418,473	638,641
Artisanal Fisheries Project	500,000	500,000
Tobwaan Terikirake Loan Scheme	10,000	

13 Sundry Expense		
Training	3,253	9,125
Promotions	4,630	4,665
Janitorial	1,423	2,162
Loan adjustments-sundry expense	0	0
Bill of Sale	273	123
Pledge Expense	8,050	5,000
Sundry Expenses	472	166
Legal and Lawyer fees	100.00	1.00
	18,201	21,241

	2017	2016
14 Greditors		
Greditors	7,121	5,270
Term Deposits	549	549
Payroll Accruals Payable	10,829	10,251
DBK Staff Deduction Clearing	77	109
Audit fees Payable	0	0
	18,576	16,179
Suspense & Clearing a/c		
Suspense Re: H/Rent Clearence	0	0
Suspense Re: Xmas Branch H	8,948	8,948
Suspense Re: Bank errors	15,010	18,246
Suspense Re: Staff fund	-12,772	-6,375
Suspense Re: Unclaimed cheques	159,864	130,089
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	24,766
Suspense Re: Unknown	342	-273
	203,821	183,062
Total Creditors	222,397	199,241

to reserve a/c. but not to be under clearing a/c

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

	2017	2016
16 Office Rent		
Head Office & TabNorth ($50 Monthly)	40,826	40,713
Notional Rent - Xmas Branch	0	0
	40,826	40,713

17 Interest on ADB Loans	263,266	250,017
18 Loans Over Payments	340,656	293,239
19 Unearned Interest	2,116,837	1,474,022