REPORT OF THE AUDITOR GENERAL
ON THE ACCOUNT OF

DEVELOPMENT BANK OF KIRIBATI
FOR THE YEARS ENDED 31st DECEMBER 2005 & 2006

KIRIBATI NATIONAL AUDIT OFFICE

August. 2009

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF DEVELOPMENT BANK OF KIRIBATI FOR THE YEARS ENDED 31ST DECEMBER 2OO5 AND 2006

EXECUTIVE SUMMARY

Findings

- The Bank's total income was slightly increased by 2.26% as compared to 2005 total income.(para 2.1)
- Total expenditure was decreased by 2.26% as compared with minor increase of 0.01% in 2005. (para 2.1)
- The working capital for the year 2006 was increased by 9.08% when compared to 2005. (para 2.2)
- The IBD schedule for 2005 & 2006 were not available, and some of the deposit confirmation slips were missing. (para 3.1)
- EIB loan has not been disclosed separately in the accounts. (para 3.2)
- Listing summary for System Loan for the two years accounts were not made available during the audit (para 3.3)

Recommendations

- Management should ensure to have copies of deposit confirmation slips available for audit verification in future (para 3.1)
- That the EIB loan necessary adjustments in relation to the separate disclosure of the interest expense be reflected in 2007 account (para 3.2)
- That the variances between System Loan account and the account be reconciled and be reflected in the 2007 account (para 3.3)

As required by Part VII of the Public Finance (Control and Audit) Ordinance 1976, I am pleased to present my audit report on the Development Bank of Kiribati for the years ended 31st December 2005 and 2006 in accordance with the relevant statutory provisions and normally accepted Auditing Standards.

1. General

The Bank was established by the Development Bank Act 1986 to provide:

Finance by making loans to any person for the purposes of primary production or for the establishment, development or acquisition (in whole or in part) of industrial or commercial undertakings, for any other purposes approved by the Board and advice and assistance with a view to promoting the efficient organisation and conduct of primary production or of industrial or commercial undertakings.

2. FINANCE

2.1 Financial Performance

The comparison of the Bank's performance for two years, 2005 and 2006:

	2006	2005	2004	2006	2005
INCOME	$	$	$	%	%
Interest	836,663	845,951	779,999	-1.10	8.46
Loan Fees	46,472	17,351	24,048	167.83	-27.85
Recovery Cost	1,690	0	0		
Government Grant	72,656	72,876	72,876	-0.30	0.00
Gain on Disposal	180	100	2,526	80.00	-96.04
Other Income	85	297	4,277	-71.38	-93.06
Total Income	957,746	936,575	883,726	2.26	5.98
EXPENDITURE					
Salaries and related expenses	418,444	384,867	653,531	8.72	-41.11
Interest on borrowing	85,867	86,126	103,460	-0.30	-16.75
Directors Expenses	13,413	13,833	11,523	-3.04	20.05
Depreciation	72,410	59,134	51,480	22.45	14.87
Other Expenses	286,007	352,407	76,275	-18.84	362.02
Total Operating expenses	876,141	896,367	896,269	-2.26	0.01
Operating Profit/(Loss)	81,605	40,208	(12,543)	102.96	-420.56
Prior Period Items	-16,128	-15,579	(205,952)	3.52	-92.44
Net Operating Profit/(Loss)	65,477	24,629	(218,495)	165.85	-111.27

As reflected in the analysis above, the Bank's total income for was slightly increased by 2.26% while total expenditure was decreased by 2.26% as compared with the figures for 2005.

2.2 Financial Position

The working capital for the year 2006 was increased by 9.08%. This was due to the decrease in Creditors and increase in Bank and Cash balances.

3. Audit Findings

3.1 Interest Bearing Deposit

Observation

Audit noted that the IBD schedule for 2005 & 2006 were not available, and some of the deposit confirmation slips were missing thus making it difficult to verify the correctness of the balance disclosed in the accounts, especially the decrease in the interest earned from IBD in 2006 of $12,124.00.

Recommendation

Management should ensure to have copies of deposit confirmation slips available for audit verification in future. Since such confirmation slips are not available we therefore could not the correctness of the DBK's IBD account for the years 2005 and 2006.

Response

Schedule for IBD is available but not updated. We have been trying our best to request BOK copies of IBD slips but were not provided on demand.

3.2 Interest on Borrowings

Observation

EIB loan – Audit noted with concern that the interest expense on EIB loan has not been disclosed separately in the accounts.

- Note 14 stated an incorrect figure for EIB interest of ($2,480), this has been noted by the Finance Manager and to be adjusted in 2007 account

Recommendation

Audit noted that the EIB loan necessary adjustments in relation to the separate disclosure of the interest expense should be reflected in 2007 account.

Response:

Interest on EIB loan is a result of a posting error. This error has been corrected in 2007. We are not expecting any interest due on EIB since our payment usually fall before our financial year.
Interest on EIB usually paid plus principal amount but failed to disclose it separately.

3.3 Current and Non Current Loan differences 2005-2006

Observation

The audit of the above account revealed that there were material variances between the System Loan Accounts and the draft account which is obviously resulted from not being able to do a proper or periodic reconciliation on both account.

Recommendation

Audit recommends that the above variances should be corrected and necessary adjustments be reflected in 2007 account.

Response:

Loan system is our subsidiary account and is more accurate. MYOB is similar to a control account. In most cases, subsidiary account provides a complete listing where there is a disparity between them a subsidiary account will be used. We do accept your comment as we fail our part in passing adjustment on the variances. We do believe that this is done in 2007 account.

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Scope

I have audited the accounts of the Development Bank of Kiribati years ended 31st December 2005 & 2006.

The preparation and the presentation of the accounts and the 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 Company. My responsibility is to express an opinion on the accounts based on my audit as required by Part VII of the Public Finance (Control and Audit) Ordinance 1976 and the Development Bank Act 1986.

I conducted my audit in accordance with the normally accepted Auditing Standards and statutory requirements to provide reasonable assurance as to whether the accounts are free from material mis-statements. My procedures include examination, on a test basis, of evidence supporting the amount and other disclosures in the account and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion as to whether, in all material respects, the accounts are presented fairly in accordance with the normally accepted Accounting Concepts and Standards and statutory requirements, so as to present a view of the Bank which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

Audit Opinion

In my opinion, the financial statements of the Development Bank of Kiribati are properly drawn up so as to:

a) Present fairly in all material respects, the Company's affairs as at 31st December 2005 & 2006, its results of operations and cash flow for the years then ended,
b) Comply with the provisions of Part VII of the Public Finance (Control and Audit) Ordinance 1976 and the DBK Act `1986; and
c) Comply with other mandatory professional reporting requirements.

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Mr. Raimon. Taake.
Auditor General
Kiribati National Audit Office.

Augustl, 2009