REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

For the Parliament and the People of Kiribati

Development Bank of Kiribati
for the year ended 31st December, 2011.

Kiribati National Audit Office
April, 2013

For the Parliament and the People of Kiribati
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KIRIBATI NATIONAL AUDIT OFFICE

Promoting Transparency and accountability for the Parliament and the People of Kiribati

Audit Report

To the readers of Development Bank of Kiribati's financial statement For the year ended 31 December 2011

The Auditor General is the auditor of Development Bank of Kiribati (DBK).

The audit covered the company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1981 and DBK Act 1986 that apply to the financial statements of the Bank for the year ended 31 December 2011.

Qualification

1. Poor reconciliation on the Loan Overpayments (LO) accounts of $254,184 seeing that from our sample testing of 30 individual statements we found that the LO accounts was overstated by $68,969.

2. Adjusting entries were not yet made but DBK agreed to make these adjustment in the next financial year, as follows:

   2.1 Accumulated audit fees of $25,000 for years to 2011 and prior was not shown in balance sheet nor profit and loss statements.

   2.2 Total expenses of $2,405 related with prior year expenditure were expensed in 2011 when should be categorised as prior period items.

   Based on evidence noted above, DBK had not fully complied with accrual accounting principles.

   2.3 The overstatement of the loan fees by $1,625 which related to posting errors.

3. We were unable to verify the compliance for the use of the KPF investment given that the fund was combined with the DBK funds. This was also mentioned in my previous audit report.

Qualified Opinion

In my opinion, **except for** the effects on the financial statements of matters referred to in the qualification paragraph, the financial statements of the DBK for the year ended 31 December 2011:

- Comply with generally accepted accounting practice as applied in Kiribati;
- Fairly reflect the results of its operations and cash flows for year ended 31 December 2011;
- Fairly reflect the Bank's financial position for year ended 31 December 2011.

The audit was completed on 3 April 2013, and was the date at which our opinion was expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the generally accepted auditing practice in Kiribati.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We randomly select transactions when conducting our audit and therefore we could not guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice. The financial statements must give a true and fair view of the financial position of the company for the year ended 31 December 2011 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Public Finance (Control and Audit) Act 1981 and DBK Act 1986.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from the Public Finance (Control and Audit) Act 1981.

Independence

When carrying out the audit we followed the independence requirements of the Kiribati National Audit Office, which incorporates the independence requirements of the International Standards of Auditing.

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

Matereta B Raiman
Auditor General
Kiribati National Audit Office

DEVELOPMENT BANK OF KIRIBATI

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2011

DEVELOPMENT BANK OF KIRIBATI
BALANCE SHEET
AS AT 31 DECEMBER 2011

	NOTES	2011	2010
CURRENT ASSETS			
Bank & Cash	4	230,969	196,375
Current Loans	5	6,082,383	5,805,344
~~Debtors~~	~~6~~	19,864	16,483
Prepayments	6	17,922	20,897
		6,351,138	6,039,098
less **CURRENT LIABILITIES**			
Creditors	14	152,038	107,305
Revolving Fund - Agent`s M/Cycle	15	9,098	9,098
Interest on ADB Loans	18	183,765	170,515
Loans Overpayments	19	254,184	322,010
Asset Replacement Fund	17	20,000	0
ADB Loan - Current Portion	12	144,951	144,951
		764,036	753,879
WORKING CAPITAL		**5,587,102**	**5,285,218**
add **NON CURRENT ASSETS**			
~~Non Current Loans~~	~~5~~	~~2,874,458~~	~~3,299,385~~
Motor Vehicles, Furniture etc.	3	89,159	94,710
Long Term loans	7	1,435	1,435
		2,965,052	**3,395,531**
less **NON CURRENT LIABILITIES**			
Government Loan ADB	12	1,180,069	1,180,069
EIB Loan	12	760,347	964,985
KPF Investment	12	1,721,429	1,709,219
		3,661,845	3,854,273
NET WORTH		**4,890,309**	**4,826,476**
Represented by:			
Paid Up Capital		4,939,940	4,939,940
Accumulated Profits	8	(115,713)	(179,546)
New Zealand Grant		66,082	66,082
		4,890,309	**4,826,476**

The accompany notes form part of these financial statements.

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Chairman

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Director

DEVELOPMENT BANK OF KIRIBATI
INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	**2010**
Income	1,102,325	1,127,680
Expenditure	1,042,186	964,144
Net Profit/(Loss) Before Prior Period Items	60,139	163,536
Prior Period Items	3,694	-19,237
Net Profit/(Loss) after Prior Period Items	63,833	144,299
Accumulated Profit/(Loss) at 1 Jan 2010	-179,546	-323,845
Accumulated Profit/(Loss) at 31 December 2010	-115,713	-179,546

The accompanying notes form parts of these Financial statements.

DEVELOPMENT BANK OF KIRIBATI
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011
Cash Flow from Operating Activities		$
Interest received		1,253,059
Cash payment to supplier and employees		-883,242
Total cash received/(used) from operating activities	(B)	369,817
Cash Flow from Investing Activities		
Purchase of Fixed Assets		-24,500
Gain on disposal		437
Net (Increase) in loan		0
Proceed from Long term Loans		0
Total Cash received/(used) from investing activities		**-24,063**
Cash Flow from Financing Activities		
EIB Loan repayment		-204,638
Loan proceed from KPF		0
Interest paid		-106,522
Government Grant		0
Total cash received/(used) from financing activities		**-311,160**
Rounding off difference		-1
Net (Decrease)/Increase in cash/cash equivalent		**34,592**
Cash and Cash Equivalent - 1/1/11		196,375
Cash and Cash Equivalent - 31/12/11	**(A)**	**230,967**

(A)- Details of Cash and Cash Equivalent as at 31/12/10

Cash Float	200
Cheque Account - Bairiki	79,938
Cheque Account - Kiritimati	39,888
Interest Bearing Deposit	97,068
Cash in Transit	13,874
	230,967

(B) - Reconciliation of cash flow from operating activities to net profit

Net Profit for the year	63,833
Depreciation	30,051
Government grant	0
Interest paid	106,522
Adjusment of PPI	
Gain on Disposal	-437
Provision Current Doubful loan	80,687
Provision Non-Current Doubful loan	344,239
(Increase)/Decrease Prepayment	**2,975**
(Incease)/Decrease in Debtors	-3,381
(Incease)/Decrease in current loan	-277,039
(Decrease)/Increase in Creditors	-9,843
(Decrease)/Increase in Sinking fund	20,000
(Decrease)/Increase in KPF Investment	12,210
	369,817

DEVELOPMENT BANK OF KIRIBATI
DETAILED INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

INCOME	NOTES	**2011**	**2010**
Interest - Commercial Loans		796,014.75	823,750.09
Interest - Bank Deposit		1,522.47	1,223.61
Interest - Staff House Loan		24,524.57	25,903.06
Interest - Staff Personal Loan		5,122.37	4,518.64
Interest - Penalty		88,857.40	106,582.36
Loan Fees		94,287.44	77,106.23
Recovery Cost		2,110.12	0.00
Government Grant		72,876.16	72,876.16
Gain on Disposal		437.00	610.00
Closing fees		9,500.00	5,400.00
Sundry Income		7,072.81	9,710.22
		1,102,325.09	1,127,680.37
EXPENDITURE			
Salaries & Staff Expense	9	549,181.98	522,801.51
Leave Grant		24,999.95	22,875.00
Directors		24,888.55	16,434.05
Representation		0.00	0.00
Repair & Maintenance - Motor Vehicle		5,827.50	5,674.86
Repair & Maintenance - Office Equipment		1,464.78	2,176.18
Repair & Maintenance - Computer		361.50	1,566.15
Transportation		11,537.55	12,984.85
Office Rent	16	35,800.00	35,700.00
Electricity		15,874.64	18,096.63
Telephone, Fax and Emails		29,793.65	38,347.42
Postage & Telegram		1,241.75	1,246.90
Printing and Stationery		25,482.20	22,951.15
Overseas Travel		20,077.95	11,240.26
Subscriptions		1,159.08	313.10
Advertising		2,051.80	1,250.80
Bank Charges		5,935.57	6,250.49
Doubtful loans	11	80,686.90	7,970.96
Depreciation	3	30,051.07	43,743.31
Outer Island Travel		13,873.55	18,622.34
Operating Cost - Outer Is, Agencies		4,655.62	5,363.86
Interest on Borrowing	12	106,522.10	127,514.68
Loans Writte off		1,951.91	4,043.79
ADFIP Conference		0.00	0.00
Debt Written off		0.00	0.00
Audit Fees		0.00	0.00
Rebate Interest expense		271.18	1,760.23
Research and development		0.00	98.70
Sundry Expense	13	48,495.62	35,117.23
Total Expenditure		1,042,186.40	964,144.45
Operating Profit/(Loss) before Prior Period Items		60,138.69	163,535.92
Prior Period Items	10	3,694.16	-19,237.20
Net Profits / (Loss) after Prior Period Items		63,832.85	144,298.72

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 2011	186,841	412,067	35,265	57,035	4,545	11,653	707,406
Additions	3,406	13,597		7,497		0	24,500
Disposal /Adjustments		0	0	0	0	0	0
	190,247	425,664	35,265	64,532	4,545	11,653	731,906
Depreciation							
At 1 January 2011	156,985	385,757	17,134	36,682	4,486	11,653	612,696
Charge	10,756	8,469	3,468	7,297	60	0	30,051
Disposal / Adjustmen	0					0	0
	167,741	394,226	20,603	43,980	4,546	11,653	642,747
Book Value							
At 31Dec 2011	22,507	31,438	14,662	20,552	-1	0	89,159
At 01 Jan 2011	29,857	26,310	18,130	20,353	59	0	94,710

	2011	2010
4 Cash & Bank		
Cash on Hand - Petty Cash	200.00	200.00
Bank Account - No. 1	79,937.9	72,220.8
Bank Account - No. 2		0.0
Bank Account - Kiritimati	39,887.7	103,439.4
Bank Account - IBD	97,069.7	15,547.3
Cash in Transit	13,873.9	4,967.6
	230,969	196,375
Cash in transit Break down		
Abaiang agency	1,292	3,004
Abemama agency	2,101	1,243
Beru agency	465	-555
Nikunau agency	-252	-0
Onotoa agency	1,693	1
Marakei agency	68	0
Fanning agency	1,542	240
Tabnorth agency	1,909	160
Butaritari agency	1,087	-58
Tamana agency	0	0
Nonouti agency	764	-513
Maiana agency	608	529
Arorae agency	-287	-296
Kuria agency	71	0
Aranuka agency	2,812	1,214
	13,874	4,968
5 Non Current Loans (maturity beyond 12 months)		
Commercial	664,818	1,856,494
Staff House	388,701	335,597
Staff Personal	55,606	47,772
Past Due	3,012,741	2,225,436
Hardcore	162,606	163,413
Total Loans - Non Current Portion	4,284,471	4,628,711
less: Provision for Doubtful Loans	-1,410,013	-1,329,326
	2,874,458	3,299,385
Current Loans - Active a/c's		
Commercial	5,972,439	5,679,740
Staff House	89,958	99,602
Staff Personal	19,986	26,002
Past Due (activated accounts)		
Hardcore (activated accounts)		
Total Loans - Current Portion	6,082,383	5,805,344
less: Provision for Doubtful Loans	0	0
	6,082,383	5,805,344
Total Loans - Current and Non Current Portion	8,956,841	9,104,729

	2011	2010
6 Debtors		
Vinster	0	0
Loan Deposit	163	163
Unresolved Receivables	4,537	4,537
	4,700	4,700
less: Provision for Doubtful Debts	-2,630	-2,630
	2,070	2,070

** Unresolved Receivables consisit of:
Agencies cash shortage $ 4144, Wishing star $264.46, Unknown $128.22

	2011	2010
Suspense & Clearing a/c		
Salary clearing	2,837	-1,157
Loan Deposit	0	0
Staff Imprest	8,443	3,527
Others	4,243	8,972
Renovation	3,071	3,071
Bounce cheque	-800	0
less: Provision for doubtful debts	0	0
	17,794	14,413
Prepayments		
Deffered Expenditure - Xmas Office Extension	17,922	17,922
Office Rent	0	2,975
	17,922	20,897
Trade Debtors	37,785	37,380
7 Long Term Loans to Subsidiaries		
OHL	1,435	1,435
	1,435	1,435
8 Accumulated Profits/(loss)		
Balance at 1 Jan 2011	-179,546	-323,845
Plus Profit/(loss) for the year	63,833	144,299
	-115,713	-179,546
9 Salaries & Staff Benefits		
Salaries & wages	468,613	449,732
Overtime	9,268	7,638
Staff allowances	9,848	13,922
Provident fund	33,219	31,409
Staff expense	0	0
House Rent subsidy	19,734	20,101
Workmens Compensation	8,500	0
	549,182	522,802

10 Prior Period Items

	2011	2010
		21,252.6
Refund of seafreight for Klaus	-732.0	
Telephone bill for 2010 paid in 2011	8,528	
Wrong posting for Business development		-5,495
Staff Bonus tax for November paid in 2011	1,472	
Tarawa motors - Service for 2010 paid in 2011		
Interest Adjustments	-7,074	-787
KPF Rent for December 2009		2,975
Leave Grant for Terengantaake (Agent Kuria 2008-2010)	1,500	0
Unclaimed cheques appeared in BST		983
Cancellation of Penalty charges		309
	3,694	19,237

11 Provision for Doubtful Loans

Provision for Doubtful Loans			2011	2010
Active Loans				
Commercial	7,137,257 @	5%	356,863	376,833
Staff Personal	75,592 @	2%	1,512	1,475
Staff House	478,659 @	2%	9,573	8,704
Total Provision Required			367,948	387,012
less Provision already provided			387,011	402,227
additional provision required/(write back)			-19,063.21	-15,215
Past Due Loans				
Pastdue	2,512,741 @	35%	879,459	778,902
Total Provision Required			879,459	778,902
less Provision already provided			778,902	754,855
additional provision required/(write back)			100,557	24,047
Hard Core Loans				
Hard Core	162,606 @	100%	162,606	163,413
Total Provision Required			162,606	163,413
less Provision already provided			163,413	164,274
less Written - off (60% provision)				
additional provision required/(write back)			-807	-861
Total Provision Required for the Year			1,410,013	1,329,327
less Provision already provided			1,329,326	1,321,356
Additional Provision Required/(write back)			80,686.90	7,970.93

	2011	2010
12 Long Term Loans		
Government Loan - ADB		
Balance 1 st January 2010	1,325,021	1,325,021
Payment to Government	-86,126	-86,126
Interest Due - 2010 (6.5%)	86,126	86,126
	1,325,021	1,325,021
Current Portion	144,951	144,951
	1,180,070	1,180,070

EIB Loan		
Balance at 1 st January	964,985	1,330,778
Disbursement from EIB	0	0
Payment to EIB	-204,638	-365,793
Adjustments		
Interest Due - 2011 (1% p.a)	0.00	0.00
	760,347	964,985

* *Interest paid on EIB loan = $8,185.54.*

KPF Investment		
Balance at 1 st January	1,709,219	1,688,721
Disbursement from KPF	0	0
Payment to KPF	0	0
Interest Due - 2009 (6% on used funds)	12,210	20,498
	1,721,429	1,709,219

13 Sundry Expense		
Training	22,885	32,136
Promotions	2,100	1,055
Janitorial	769	938
Loan adjustments-sundry expense	2,550	287
Sundry Expenses	42	551
Insurance Coverage	11,500	0
Legal and Lawyer fees	8,650.00	150.00
	48,496	35,117

	2011	2010
14 Greditors		
Greditors	-35	-35
Suspense & Clearing a/c		
Suspense Re: H/Rent Clearence	186	186
Suspense Re: Xmas Branch H	7,735	7,086
Suspense Re: Bank errors	7,827	7,818
Suspense Re: Staff fund	0	205
Suspense Re: Unclaimed cheques	78,300	58,635
Suspense Re: Phone Clearence	-5	-5
Suspense Re: Loan Refund	-3,323	-3,323
Suspense Re: Missing Telmo	12,018	12,018
Suspense Re: Vinstar Expenses	0	0
Suspense Re: Commercialisation Project	12,647	12,647
Suspense Re: Project development	-788	-788
Suspense Re: Loan Adjustments	14,505	14,560
Suspense Re: Unknown	22,970	-1,700
	152,073	107,340
Total Creditors	152,038	107,305

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	865	865
Marakei agent	982	982
Fanning agent	865	865
Tabnorth agent	865	865
Butaritari agent	865	865
Tamana agent	865	865
Nonouti agent	-197	-197
Arorae Agent-	-1,092	-1,092
Aranuka Agent-	-1,092	-1,092
Maiana agent	865	865
Marakei agent	865	865
Nikunau agent	982	982
	9,098	9,098

	2010	2010
16 Office Rent		
Head Office	35,800	35,700
Tab North		
Notional Rent - Xmas Branch	0	0
	35,800	35,700
17 General Insurance Fund		
Worksmen Compensation	8,500	0
Motor Vehicles	9,000	0

Furniture and fittings	2,500	0
	20,000	0
18 Interest on ADB Loans	183,765	170,515
19 Loans Over Payments	254,184	322,010