Kiribati National Audit Office

Promoting Transperancy and Accountability

For the Parliament and People of Kiribati

Auditor-General Report on The Accounts of the Government of the Republic of Kiribati for the Year Ended 31 December 2009

Part 1: Statements i to xx

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Promoting Transparency and Accountability For The Parliament And People Of Kiribati

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File Ref. Date: 20 August 2012

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 2009 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.

This year the report has been split into two parts to aid reading and accountability, namely:

- Part 1: Statements i to xx, and
- Part 2: Revenue and expenditure: Government of Kiribati Ministries.

however my overall audit opinion covers both parts.

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 Planning.

Yours faithfully,

Matereta Raiman
Auditor General

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1. Synopsis

Based on the result of the audit, the same old issues were still detected in most components of accounts disclosed in the 2009 Annual Account. There was still a lack of proper reconciliation on almost all of accounts in particular, major Bank accounts, Deposit accounts and Government major and miscellaneous revenue and expenditure accounts, which, as noted when passing and as per the information given upon enquiry, was largely due to insufficient knowledge and skill in using Attaché accounting software by some accounting staff at MFED and at other Ministries. Also noted was that more than 60 % of staff had shown poor commitment towards their duties and responsibilities, nor being able to comply with the relevant provisions of the Financial Regulation.

Coupled with the above there were still missing supporting documentations the absence of which had obviously dragged the submission of this particular report to Parliament than initially planned. Instead of completing the 2009 within three Parliament sessions following the receipt of the accounts in June 2010, it had taken two years to complete the 2009 Accounts. In order to avoid encountering same problem in later years it would, therefore, be appreciated if all accounting officers ensure all records are kept securely and made readily available when required for auditing in the future.

Based on the above, together with other material miss-statements as mentioned in our Audit Opinion, the 2009 Annual Account is deemed unfairly stated.

Nonetheless, it would be a remiss not to acknowledge the efforts exerted by the Accounting staff at MFED in producing the 2009 annual account just before 30 June, 2010.

2. PREFACE

This annual report for the year ended 31st December 2009 has been prepared by the Kiribati National Audit Office for submission to the Parliament in August 2012. Pursuant to Section 114 of the Constitution I am required to audit the public accounts of Kiribati and to submit a report annually to the Speaker who shall lay it before the Maneaba ni Maungatabu (Parliament).

The public office of the Auditor General is established under Section 114 (1) of the Constitution. Section 114 (2) of the constitution allows the Auditor general or those delegated in that behalf to audit the public accounts of Kiribati and of all departments, offices, courts and authorities of the Government, including statutory corporations and government owned companies.

In relation to the independence of the Audit Office, Section 114(4) of same grants complete independence in discharging statutory functions without interference or restriction from the Executive System. Any attempt to violate the independence of the Auditor General will become the subject of a report to the Mwaneaba ni Maungatabu in accordance with Section of the Public Finance (Control and Audit) Act.

There are challenges in obtaining a sound financial reporting that have and are still being faced by the Audit Office the result of which had made it not possible to complete the audit report within a reasonable period of time. These could be overcome by employing the right proficient and committed staff in producing well structured accounts as well as having reliable resources.

As could be observed in the content of the 2009 report, the coverage had been extended for the first time to include reports on some outputs that had not been reported in the past, namely: Debt Servicing and Other Government Expenses account. It was not surprising to detect substantial accounting errors in these two accounts and with the current notable malpractices gradually emerging, similar errors would no doubt be present in other accounts that had never been audited.

The current problem MFED is facing in using the Attaché accounting software could have been solved had proper on the job training been given to operational staff immediately after the exodus of well-trained staff. It should be noted however, that Attaché software was designed to produce efficiently and effectively the qualitative financial statements. Thus if any problem is encountered, within a matter of few minutes such problems should easily be resolved by the skilled staff given all relevant modes, as informed, had all been inbuilt in the software.

I am glad to hear that work on improving or strengthening the Public Financial Management is underway as I am sure this would pave the way to producing an effective and qualitative financial reporting the advent of which no doubt would enhance a profound economic decision-making.

Finally, I am hopeful that our findings and recommendations will enhance transparency and accountability for the Republic of Kiribati and in turn would:

- enhance audit impact, and
- bring about cost savings to public fund and improvement in the systems of public financial management (PFM).

OPINION OF THE AUDITOR GENERAL
ON THE ACCOUNTS OF THE GOVERNMENT OF THE REPUBLIC OF KIRIBATI
FOR THE YEAR ENDED 31 DECEMBER 2009

3. Audit Opinion

I have audited the Public Accounts for the years ended 31 December 2009. The preparation and presentation of these accounts are the responsibility of the Accountant General who transmitted them to the Auditor General 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 the audit as required by Section 114 of the Constitution and Para V of the Cap 79 of the Public Finance (Control and Audit) Ordinance 1976.

The audit was conducted in accordance with the provisions of the Ordinance 1976 and Generally Accepted Auditing Standards to provide reasonable assurance as to whether the accounts are free of material miss-statement and errors. The auditing 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 as to present a fair view of the transactions of the Consolidated Fund, and the other matters which is consistent 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, 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 Owned Fixed Assets, and project funds received outside of the Government No. 4 Account (including those of others the maintenance of which falls under the management of the mother Ministries).

Qualifications

1) Anomalies between MFED and Ministries major revenue figures (refer section 6),

2) Lack of reconciliation and Control weaknesses over Other government expenditures account (refer section 7)

3) Unavailable documents for Stabex Special fund balance (refer section 8)

4) Poor Bank reconciliation which lead to disclosing incorrect Cash on hand and at bank balances in the financial statement, in particular No.1, No.4, No.5 and No.6 (refer section 9)

5) Un-reconciled advance account balances of $18 million and non-availability of imprest Subsidiary accounts (refer section 10)

6) Irregularities and non-availability of document for Deposit account (refer section 11)

7) Incorrect Contingent liabilities balance and omission of Government Finance Lease from ANZ Kiribati amounted to $2.7 m in the 2009 Annual Account (refer section 12)

8) Unavailability of GL for some other investments accounts (refer section 13)

9) Queries regarding the status of loans issued (refer section 14) and public debt (refer section 15)

10) Lack of proper reconciliation, controls and Incorrect balance for Arrears of Revenue (refer section 16)

11) Irregularities in the Cash in transit figure (refer section 18)

12) Understatement of Revenue and Expenditure by $766,072 (refer to section 2.5.7 of part 2)

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 was not presented 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 2009. The deficiencies as well as results of its operations and its cash flows for the year then ended were not also presented fairly in the annual account.

Matereta B Raiman
AUDITOR GENERAL

3.1. 2009 ANNUAL ACCOUNT SCORECARD

	ASSETS	2009	Rating
	INVESTMENTS		
XX	Investments with HSBC	289,453,052	B
XX	Investments with NICAM	281,460,435	B
XI	Other Investments	823,360	**C**
		571,736,847	
	CASH		
VI	Cash on Hand & bank	17,935,442	**D**
XIX	Cash in transit	2,414,343	**D**
		20,349,785	
VII	**ADVANCES**		
	Other Governments	7,066	**C**
	Public Officers	-8,429,837	**D**
	Sundry Advances	1,824,888	**C**
		-6,597,883	
LESS	**LIABILITIES**		
IX	**DEPOSITS**		
	Deceased Native Estates	-905,600	**D**
	Public Officers	87,460	**C**
	Sundry Deposits	-3,254,310	**D**
	Telmos	1,529,010	**D**
		-2,543,440	
	NET TOTAL ASSETS	**582,945,310**	
	Consolidated Fund	7,877,439	**D**
	Development Fund	3,785,527	**D**
	RERF	570,913,487	**B**
	Stabex	-2,965,782	**D**
	Other Special Funds	3,334,639	B
	Grand Total	**582,945,310**	

3.2. OVERVIEW

This report is part 1 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 which are aligned to the contents of the Annual account 2009 provided by MFED. Recommendations as given in this report in order to assist in improving programs & operations and provide better service to the public are the bottom lines of our audit work.

Most of the issues highlighted in this report are repetitive from prior years (2008, 2007 and 2006) indicating a slow improvement of the accounting system, hence the need to seriously consider such issues and recommendations. More importantly the report focuses mainly on the controlling and safeguarding of cash at bank and on hand. Given a number of government cash or bank accounts with substantial sums the controlling and monitoring of daily and bulky transactions are undeniably very diverse and complicated and therefore calls for a fully committed and painstaking team. Bank reconciliation is a key control system for cash transactions therefore such system should be cautiously applied.

In practical terms MFED or management is primarily responsible for resolving and implementing recommendations promptly and effectively. At the same time we, as auditors, are responsible for constant follow up to ensure that appropriate actions are taken and intended results realized.

3.3. ACKNOWLEDGEMENT

First of all we would like to take this opportunity to convey our sincere thanks to the staff of the Ministry of Finance Economic Development for their invaluable contributions to the completion of this Audit Report. Despite many issues faced during our audit work, we noted various improvements in some areas. We are deeply grateful about the work done so in turn we would like to extend our thanks to specially officers from the Accounting division for their time and effort in providing the required documents to us.

We would also like to express specifically our sincere thanks to senior officers from each division of the accounting unit for their attendance at arranged interviews and their effort to tackle some of the questions related to our audit work.

Our sincere gratitude also goes to the Accountant General and his subordinate staff for their full cooperation and assistance in providing the information that we required for the completion of our audit work.

It would be a remiss not to acknowledge also the efforts and dedication of all staff of KNAO involved in the completion of this report without which the completion of this report would not be a success.

4. The Statement No I: BALANCE SHEET

4.1. Assets and liabilities

At the end of 2009 the Government of Kiribati held the following assets and liabilities:-

Stat		2007	2008	2009	09 Inc/(Dec)
	ASSETS				
	INVESTMENTS				
XX	Investments with HSBC	319,915,413	281,829,824	289,453,052	7,623,228
XX	Investments with NICAM	317,420,189	279,771,276	281,460,435	1,689,159
XI	Other Investments	725,067	794,163	823,360	29,197
		638,060,670	**562,395,264**	**571,736,847**	**9,341,583**
	CASH				
VI	Cash on Hand & bank	7,264,991	1,105,957	17,935,442	16,829,485
XIX	Cash in transit	2,505,366	7,261,907	2,414,343	(4,847,564)
		9,770,358	**8,367,865**	**20,349,785**	**11,981,920**
VII	**ADVANCES**				
	Other Governments	7,066	7,066	7,066	-
	Public Officers	9,949,622	10,140,865	-8,429,837	(18,570,702)
	Sundry Advances	8,729,016	1,465,080	1,824,888	359,808
	Total Assets	**18,685,704**	**11,613,011**	**-6,597,883**	**(18,210,894)**
LESS	**LIABILITIES**				
IX	**DEPOSITS**				
	Deceased Native Estates	-671,955	-1,121,502	-905,600	215,902
	Public Officers	-18,433	-22,233	87,460	109,693
	Sundry Deposits	-862,864	-2,888,593	-3,254,310	(365,717)
	Telmos	-1,242,623	-644,482	1,529,010	2,173,492
		-2,795,876	**-4,676,865**	**-2,543,440**	**2,133,425**
	NET TOTAL ASSETS	**663,720,855**	**577,699,276**	**582,945,310**	**5,246,034**

Table 1a: GOK Assets and Liabilities

4.2. Net Total assets

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

Title	**2006**	**2007**	**2008**	**2009**	**INC/(DEC)09**
Consolidated Fund	-4,856,558	15,677,968	9,329,496	7,877,439	(1,452,057)
Development Fund	15,672,023	11,377,479	9,312,953	3,785,527	(5,527,426)
RERF	659,584,881	637,335,602	561,601,101	570,913,487	9,312,386
Stabex	-3,667,794	-3,608,211	-5,430,692	-2,965,782	2,464,910
Other Special Funds	**2,749,513**	**2,938,017**	**2,886,418**	**3,334,639**	448,221
Grand Total	**669,482,067**	**663,720,855**	**577,699,276**	**582,945,310**	**5,246,034**

Table 1b: GOK Net Total assets

The Realized Net Total Assets has been declined from 2006 to 2008 while increased by $5.2 million in 2009. This is caused predominantly by the increase in value of the investment of over $9 million[1].

[1]The RERF is discussed at Section 4.19

5. Statement No II: CONSOLIDATED FUND

5.1.1. 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.

5.1.2. Balance of the Fund

The table below shows the balance of the fund over the past several years.

Title	2006	2007	2008	2009	2009 Audit
	$	$	$	$	
Balance Brought Forward	-13,596,765	-4,856,558	15,677,968	9,329,496	9,329,496
Add:					
Total revenue collected	92,992,386	106,370,995	92,359,787	87,580,090	87,613,833
Sub-total	**79,395,621**	**101,514,437**	**108,037,754**	**96,909,587**	**96,943,329**
Less:					
Total Expenditure incurred	84,252,179	85,836,469	98,708,258	89,032,148	91,810,763
Excess/(Deficit) of Actual Revenue Over Expenditure	**-4,856,558**	**15,677,968**	**9,329,496**	**7,877,439**	**5,132,566**
RERF drawdown	**33,500,000**	**45,000,000**	**25,000,000**	**18,000,000**	**18,000,000**
Adjusted Revenue	**59,492,000**	**61,370,000**	**67,359,000**	**69,580,090**	**69,613,833**
Adjusted Deficit	**-24,759,793**	**-24,465,474**	**-31,348,471**	**-19,452,058**	**-22,196,930**

Table 2a: Consolidated Fund balances 2006-2009

The above table shows positive carried forward balances in the consolidated fund for the years 2008 and 2009. However the 2009 account reflects an overall deficit of expenditures over revenues which include the RERF drawdown[2].

As noted in the above table, despite a reduction in the Expenditure by around $7m when compared to 2008 figure, the revenue collected, by same comparison, was also down by about $4m. If there was an increase in collection over and above the budget of $87,613,833 in 2009 and with a positive balance figure brought forward from 2008 of $9.3m the deficit level as at year end of $22 m would have been reduced and so would other related costs attached thereto.

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

It is therefore recommended that Government considers other avenues of generating revenue that would, overtime, gradually yield additional revenue that would outweigh the budget deficit and eventually reduce the drawdown level.

6. STATEMENT No III & IV: REVENUE & EXPENDITURE

The tables that follow provide a summary of the estimated and actual revenues and expenditures from the Consolidated Fund for the past three years.

6.1.1. Assessment of Revenue

Revenue	2008		2009		2009 Variance
Title	**Estimate**	**Actual**	**Estimate**	**Actual**	**Act vs. Estimate**
Fishing License	25,060,767	31,240,228	24,000,000	29,516,146	5,516,146
Import Duty	18,228,918	16,078,071	19,800,000	15,466,470	(4,333,530)
RERF		25,000,000		18,000,000	18,000,000
Company taxation	4,500,000	5,892,133	4,500,000	7,007,670	2,507,670
Hotel tax	50,000	42,272	50,000	103,416	53,416
Dividends	752,000	1,027,986	1,100,000	-	(1,100,000)
Interest on Consolidated Fund	-	48,469	-	19,356	19,356
Sale of Green Passports	-	-	-	-	-
Personal tax	7,050,000	7,630,635	7,100,000	6,157,307	(942,693)
NASDA	1,573,000	1,132,945	1,651,800	1,573,918	(77,882)
Cruise Line Revenue	989,000	206,915	500,000	65,125	(434,875)
Sea Launch	-	-	-	-	-
Appron. from prev years Sur	-	-	-	-	-
Chinese Tracking Station	-	-	-	-	-
Air Space usage fee	216,850	-	217,000	-	(217,000)
Sub- Total	58,420,535	88,299,655	58,918,800	77,909,406	18,990,606
Misc Revenue	3,420,093	4,060,132	3,175,411	9,670,684	6,495,684
Total	**61,840,628**	**92,359,787**	**62,094,211**	**87,580,090**	**25,485,879**
Adjusted less RERF		**67,359,787**		**69,580,090**	**990,606**

Table 3a: Estimated against actual Revenue collected between 2008 to 2009

The figures reflect an overall revenue result for the past three years. Actual Revenues, excluding RERF drawdown, of $67.3 million in 2008 was down by 3% to $69.6 million in 2009. As reflected in the table 3a above, the decrease was due to the decrease in Government major revenue as listed below:

	2007 Actual	2008 Actual	2009 Actual	Change
Fishing License	25,419,845	31,240,228	29,516,146	(1,724,082)
Import Duty	17,993,481	16,078,071	15,466,470	(611,601)
Personal tax	7,234,913	7,630,635	6,157,307	(1,473,328)

Dividends	1,762,937	1,027,986	-	(1,027,986)
Cruise Line Revenue	543,601	206,915	65,125	(141,790)

Table 3b: Actual Revenues from 2007 to 2009

6.1.2. Lacks rigour Reconciliation of Revenue for 2009

As mentioned in the previous 2008 Annual report, lack of revenue reconciliation had been a major issue between the MFED and ministries and yet still occurred in 2009.

Major Revenues	MFED	Min Balance[3]	Variance
Fishing License	29,516,146	29,829,342	313,196
Import Duty	15,466,470	15,291,713	(174,757)
Company taxation	7,007,670	6,479,202	(528,468)
Hotel tax	103,416	114,819	11,403
Personal tax	6,157,307	5,203,811	(953,496)
NASDA	1,573,918	N/A	N/A
Cruise Line Revenue	65,125	N/A	N/A

Table 3c: Revenue Reconciliation between MFED & Ministries for 2009

Highlighted in the above table is the comparison of revenue records as at 2009 between MFED and concerned ministries or divisions.

The audit revealed that these variances for major revenues are the result of the following:

- Lack of revenue reconciliation between MFED and ministry divisions
- Misposting or allocating revenues to the wrong code by MFED
- Posting to the Attaché system is not up to date

The audit noted after discussion with concerned divisions that there had been no reconciliation performed during the year.

Per explained by the Officer in charge at Fisheries that their record should be the actual figure which should be disclosed in the account. He further mentioned that such variance would be the result of misallocation of fishing license revenue to the wrong code by MFED.

The audit also found out that the posting to the Attaché system is not up to date, it could be one month late after the date of receipt. This was confirmed after revealing payment for personal tax receipted at 15/04/09 and was posted on 5/05/09. In this case revenue collected in December could be posted at the beginning of the next financial year and accounted for in that period.

One of the areas of concern in this regard is the deposit of collections by Revenue Collectors to the Bank and this will be the subject of rigorous audit in future years.

[3] Refer to Appendix 17.1, Major revenues summary 2009 (extracted from divisions record)

Furthermore, the audit was unable to verify the Ministry balances against MFED for NASDA and Cruise Line Revenues since the records could not be provided by respective ministries during the audit.

These concerns collectively, clearly cast serious doubts on the balances reflected in the Annual Accounts.

RECOMMENDATION

- **It is recommended that the MFED and the concerned Ministries needs to reconcile their accounts on a monthly basis and maintain adequate supporting records.**

- **MFED has to ensure that the cashier know how to allocate revenue type correctly in the Attaché system so that all revenue balances obtained from the system are correct.**

- **MFED should ensure that the posting to the Attaché system is up to date which means on a timely basis whereas daily revenues collected are posted at the date of receipt.**

- **MFED should ensure a weekly or daily bank reconciliation with revenue deposits is made, depending on the size of the daily collections, and**

- **Major revenue collectors to maximize their collections while considering other new revenue lines the objective of which is to eliminate budget deficit and commence saving the RERF.**

6.2. Assessment of Expenditure

	2007	2007	2008	2008	2009	2009
Title	Estimate	Actual	Estimate	Actual	Estimate	Actual
Cont to Development Fund	0	0	570,816	570,816	30,000	0
Support to Beretitenti	1,079,294	908,073	1,083,617	1,004,894	1,107,353	1,120,686
Public Service Office	1,047,296	1,001,065	1,052,441	1,049,592	1,064,281	1,084,064
Judiciary	1,348,818	1,404,256	1,435,946	1,341,353	1,462,396	1,478,011
Police & Prisons	6,573,155	6,460,198	6,627,210	6,602,774	6,719,915	6,705,689
Public Service Commission	214,045	166,660	214,928	219,601	217,923	204,895
Foreign Affairs	1,109,378	690,046	1,104,618	974,586	1,127,964	1,203,715
Min Home Affairs & Rural D	2,569,990	2,593,860	3,150,355	3,102,545	2,830,033	2,801,857
Min Environment & Social Dev	2,664,815	2,502,776	2,692,155	2,586,153	2,733,389	2,707,950
Maneaba ni Maungatabu	1,939,689	1,887,911	2,266,482	2,422,081	2,360,475	2,812,012
Min of Commerce, Ind & T	1,080,532	1.246,902	1,115,966	1,062,923	1,117,259	1,053,836
Kiribati National Audit Office	585,418	526,014	591,562	563,729	603,182	592,939
Office of the Attorney General	454,203	400,516	457,710	409,640	466,779	423,099
Min of Natural Res & Develop	1,876,982	1,707,115	1,902,127	1,763,039	1,942,970	1,885,989
Min Health & family Plan	13,028,219	14,561,118	14,890,094	17,640,681	14,606,800	14,715,799
Min Education, train &	20,491,650	21,022,616	21,135,346	20,641,690	21,532,278	21,634,323
Min Info, Comm & C	3,161,274	3,310,944	3,387,735	3,370,330	3,443,606	3,285,478
Min Finance & Econ Plan	2,451,968	2,537,079	2,473,656	2,562,159	2,541,401	2,624,340
Min Works & Energy	2,727,204	2,671,335	2,748,731	2,448,998	2,811,911	2,697,314
Min Labour, Employ &	2,786,194	2,673,040	3,166,093	2,994,140	3,210,164	3,073,034
Min Line Phoenix & devel	2,918,092	2,912,593	3,293,100	3,339,406	3,403,741	3,397,085
Debt servicing	2,284,000	2,284,000	656,750	8,200,848	2,532,998	3,102,113
Other Gov Expenses	13,068,163	12,368,352	13,892,278	13,836,278	12,434,080	13,206,535
Total	**85,470,379**	**85,836,469**	**89,909,718**	**98,708,258**	**90,300,898**	**91,810,763**

Table 3d: Estimated against actual Expenditure between 2007 to 2009

For several years actual expenditures have been increasing but in 2009 it is encouraging to note a decrease in the level by $6.89 m (from $98m down to $91.81[4] million) compared to actual spending in 2008. This is predominantly due to:

- A major decrease in other Government expenses (refer 3.3)
- The reduction of expenditures for Debt Servicing of $5.1 m and
- Reduction in spending by various ministries in the vicinity $0.67 million.

[4] This takes into account the Audit figure, not finance figure.

However, it should be noted that, in the absence of regular reconciliation, the overall total as per table above did not equate with the MFED figure.

Note: Further analysis and commentary of both 2009 revenue and expenditure by Ministry is detailed in a separate Auditor General's report Part II.

7. Other Government expenditures

The above account decreased to $13.2m when compared to 2008 amount of $13.8 m. It was initially reported as $10.8m but increased after adding back the $2.4 m, re one of the audit queries for 2008 Account. Unfortunately, such adjustment was not right, hence its removal from such account. Audit check on some other major expenditure accounts revealed substantial variances as follows:

Expenditures	Budget	Actual (MFED)	Bal per Division	(Over)/Under Bud vs. Act	Variance MFED vs. Division
Subsidy to KHC	250,000.00	264,151.00	250,000.00	(14,151.00)	14,151.00
Subsidy to PUB	480,000.00	480,000.00	480,000.00	-	-
Copra Price subsidy	5,150,000.00	5,150,000.00	4,720,895.66	-	429,104.66
Land Rent	1,917,080.00	3,087,201.00	1,901,689.22	(1,170,121.00)	1,185,511.78

Table 3e: Comparison of major expenditures between budget/MFED/Min. Division 2009

7.1.1. Subsidy to KHC

Subsidy to Kiribati Housing Corporation as at 2009 had exceeded budget by $14,151.00. The appropriated amount of $250,000 had been received by the corporation on cheque no: 42559. However the exceeded amount per record of MFED could not be verified due to the unavailability of supporting documents. Therefore it was doubtful as to whether or not there was an increase of $14k.

7.1.2. Subsidy to PUB

As confirmed by the PUB an amount of $792,802 was received in 2009 as government grant (amount not stated above). From such amount $480,000 was in the form of government subsidy while $312,802 was received from KOIL as being a Non-Government Grant Aid for power supply (generators parts).

7.1.3. Copra Price Subsidy

Under the provision of Section 5 of the Special Fund (Stabex) Act 1988, the Minister of Finance authorized the release of General warrant to the Accountant General for Copra price subsidy. The Accountant General then issued an Accounting Warrant addressed to the Secretary of Min. of Commerce Industry & Cooperative (MCIC). The copra subsidy was monitored and managed by Cooperative & Credit Union Regulatory Division.

A disclosed balance in the account for copra subsidy, by MFED, did not agree with the records of the Ministry of Commerce resulting in a variance of some $429,104.66. In practice at the end of the financial year the fund should have nil balance, meaning that it has been appropriated for according to budget. However, according to the explanation from the MFED the variance was due mainly to the delay in submitting Copra Purchase Return (CPR) from the Outer islands through the Ministry of Commerce.

While attending the Copra Committee meeting at the Ministry of Commerce dated 8th February 2011 the audit noted the following issues regarding the Copra fund subsidy.

7.1.3.1. Manipulation of CPR

An intentional action of a copra agent on an island to create fake names on a CPR so he himself can reimburse the amount on a PV. This kind of issue commonly exists on big islands. (Names are not stated)

Major causes:

a. Lack of supervision
   An assistant treasurer did not involve in the procedure of copra weighing for reasons like transport problem or tight in schedule routines. Hence a copra agent is the only personnel who weigh and pay out money to copra cutters.

b. Failure to comply with ethical behaviors
   Since controls with payment is in the hand of a copra agent and nobody is watching him then he could perform such dishonest actions by filling a CPR with fake names just to gain benefits.

c. Penalties are not strictly enforced
   Those who already caught with such cases in the past were not strictly penalized and as a result same kind of practice continues.

7.1.3.2. Copra Stock Leakages[5]

A huge gap or difference between copra stocks kept in a warehouse (waiting to be shipped) with copra purchase returns.

Major causes:

a. Copra stock are not securely stored.
   Copra sheds or warehouses are in bad conditions, very old with some damaged walls that make copra stock easily be stolen by people living nearby.

b. Little space to keep copra stock.
   Copra sheds are too small to accommodate a number of copra stocks therefore could be left outside for some times while people have a chance to take them without being noticed.

c. Copra weighing is not centralized at one place.
   Leakages issue may exist when transporting them to the main place.

d. Copra weighing machine is not reliable .

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[5] Refer to Appendix 17.2, 'Extract Report: *Copra Fund Auditing Abemama 2009,* Ministry of Commerce, Industry & Cooperatives.

Copra agents can intentionally manipulate a weighing machine just to gain extra payment from the fund. When compared with KCCSL on arrival of copra shipment a huge variance was revealed.

7.1.4. Land Rent

The above account was over the approved amount by $1.17 million in 2009. As per discussion with the Director of Lands, the main reason for the over payment of land lease during the year was caused mainly by the inclusion of unappropriated claims (not included in the recurrent budget). Most of these claims relate to deceased cases which have been pending for many years. During the year proper take over procedures for the change of land names were undertaken by beneficiaries and resulted in approving payments additional to those already being appropriated for. However, the audit still cannot rely upon the Land office records since the summary was given in excel format without supporting documents for the payments. There was still concern though on the figure shown in the MFED's records against that of the Lands Division due to lack of proper reconciliation, hence a huge variance of $1.19m.

GENERAL RECOMMENDATIONS: Again Reconciliations should be performed as a priority between MFED and respective ministry divisions or companies.

Specific Recommendations:

- **Internal controls over the management of copra funds should be strengthened by the concerned Ministry in order to minimize the risk of manipulation of the fund**
- **A proper review should be performed annually prior payment of land lease to land owners.**

8. Statement No V: SPECIAL FUNDS

8.1.1. *Establishment, Purpose and Management of the Fund*

The establishment and management of special funds are governed by the relevant provision of the constitution and Public Finance (Control and Audit) Act. Each fund has its own purpose and can be used only for that purpose. The RERF is also a special fund and this is discussed at section16.

8.1.2. *Special Fund Balances*

Special Funds balance as at 31 December 2008 and 2009 show balances of -$2,544,274 and $368,857 as detailed in table 4a below.

Title	2006	2007	2008	2009
Coinage	289,881	300,169	312,862	318,983
Kaoki Mange	183,710	174,333	222,446	149,816
Import Levy	15,587	44,951	319,636	40,040
Stabex	-3,667,794	-3,608,211	-5,430,691	-2,965,782
Leper Trust	5,403	5,425	5425	6,496
Dai Nippon Causeway	1,896,554	2,054,759	2,306,943	2,460,926
Escrow Account	358,377	358,377	358,377	358,377
Grand Total	**-908,280**	**-670,193**	**-2,544,274**	**368,858**

Table 4a: Special Fund balances

A review of the following account balances found that:

The value of the Fund as at 31 December 2009 decreased significantly by 86% when compared with 2008. This is due to the negative balance of the Stabex Fund[6] of $2.96m (2008: $5.4m)

8.1.3. *Coinage:*

Balance should be cleared and not be reflected in the 2009 account. MFED advised us that adjustment had been made on HQJV no. 197/12 but unable to locate it.

8.1.4. *Te Kaoki Mange:*

The fund had a positive balance from 2006 to 2008 but had significantly decreased by $372,262 in 2009. After examination a number of HQPVs amounted to $48,089.25 were not available. A major HQPV 1036, Au 02/09 of $5,868.50 was noted missing therefore we are unable to determine the accuracy of the account.

8.1.5. *Dai Nippon Causeway:*

This allocation was credited when revenue were collected from daily toll fares while debited as payments are made for repair and maintenance. Toll fares were collected on a weekly basis by

[6] This comprises of three accounts: Stabex Special Fund ($188,649.48), N0.6 Stabex Fund ($512,506.13)and Local Stabex Fund (-$3,666,937.46)

the cashier. According to the available record, the balance for the year was significantly less than previous years, which is not comparable with the increasing number of vehicles each year. Certainly, toll collectors should be held responsible for such decrease in toll collection during 2009.

8.1.6. Plant and Vehicle Unit

It should be noted that the Plant and Vehicle Unit was established under Cap 95A as a Special Fund. The absence of Plant and Vehicle Units' details of receipt and payment amongst the Special Fund listed above was a breach of the provisions of Cap 95A.

Therefore MFED should ensure PVU is included in future reports so as not to by-pass the requirements of Cap 95A and to ensure the operations of such conform accordingly.

RECOMMENDATIONS:

- **MFED should ensure that reconciliation occur on a timely manner. Management also needs to keep and maintain records for audit purposes and future references.**
- **MFED should also ensure all Special Funds established under their respective Acts conform with their obligations and where deviations are noted, immediate remedial actions are taken.**

9. Statement No VI: CASH ON HAND AND AT BANK

Cash on hand and at Bank balance has increased by $16.83 to $17.94 million between 2008 and 2009. In my prior audit report Bank reconciliations have not been completed since 2003 while in 2009 Bank Reconciliation was just completed. However we cannot place reliance on these figures since there are still deficiencies and anomalies exist in the accounting records and systems.

	2008	2009	Bank Confirmation @ 31 Dec 2009	Last complete bank Reconciliation
BANK OF KIRIBATI				
Betio PO Reimburse clearing		(220.00)		
NO 1 A/C	(12,106,225.26)	(5,970,024.78)	(7,916,871.41)	2009
IBDs with BOK Ltd	(1,200,000.00)	4,730,000.00	4,764,989.04	N/A
Kiribati Charter Operations	-	(1,673.43)		N/A
Kiribati High Com Bank a/c	-	339,237.07	?	Never been done
KPF Clearing Account	(2,433,171.00)	-		N/A
Met Office A/C 819328	20,000.00	20,075.00		N/A
No. 4 Account	22,285,508.29	29,269,840.02	4,752,747.76	2009
No. 5 Account (Kiritimati)	(4,643,401.73)	(9,275,846.06)	103,252.07	2009
No. 6 Account (Stabex)	(1,605,784.76)	(1,482,254.78)	141,270.12	2009
Xmas No.5 Account	-	-		N/A
	316,924.98	**17,629,133.04**		
OTHER				
Sub-Accountants	67,894.59	250.00		
Cash - Local Gov	684,167.86	269,088.61		
Agents	36,970.56	36,970.56		
	789,033.01	**306,309.17**		
TOTAL per Balance Sheet (Statement 1)	**1,105,957.99**	**17,935,442.21**		

Table 5a: Cash at bank and hand summary

9.1.1. Government of Kiribati No. 1 account

As reflected in the above table the overdraft for 2008 has significantly decreased by $6.13 to $5.97 million in 2009. Whist the reconciliation statement for 2009 was provided the audit noted unpresented deposits of $24.89 million while outstanding cheques of $22.75 million. However we could not place any reliance on the balance as there are many supporting documents for deposits and withdrawals not available during the audits total up to $3.29 and $16.57 million respectively. Of significant concern the audit noted total deposits of $8.04 million and withdrawals of $0.30 million were actually appeared in the bank statement but being overlooked during the reconciliation process and therefore indicated as not being appeared or still outstanding. As a result such balances had been overstated in the reconciliation statement when it should have reduced by such respective amounts. Consequently, the overdraft of $7.92 million for 2009 as per bank confirmation can only be agreed upon if the proper reconciliation procedure is conducted, documents are provided and adjustments for corrections are made.

9.1.2. No.4 account

The balance for the N0.4 Bank account of $3.8 million showed a significant decrease of $5.5 million when compared to 2008 bank balance of $9.3 million. Despite having prepared the bank reconciliation statement for 2009 yet we were still unable to place reliance on it due to the following factors:

1) We did not perform any audits on unpresented deposits due to the unavailability of source documents amounted to $25.9 million which includes a huge balance for PPI of $21.9 million.
2) As for outstanding cheques 56% from total balance of $0.23 million were not available hence our testing to source documents covers only a balance of $0.04 million yet we found out that there were cheques withdrawals appeared on bank statement valued at $0.013 million.
3) The huge variance of cash balances between the Bank Certificate and the Annual Account of $4,752,747.76 and $29,269,840.02 respectively. Such variance was due to lack of proper bank reconciliation statement being prepared by Staff concerned.

9.1.3. No. 5 account (Kiritimati)

The overdraft of $4.64 million in 2008 had significantly increased by $4.63 to $9.27 million in the following year. Whilst the bank reconciliation was provided for 2009 the audit was unable to check the accuracy of the account since the reconciliation statement was not properly constructed in accordance with the acceptable standard format. **As observed the reconciliation statement consisted of an opening bank balance instead of a closing balance. This is very incorrect therefore we could not rely upon this bank reconciliation.** It should also be emphasized that import duties, tax revenues and other ministry revenues i.e. solar salt etc. were directly deposited to the No.5 account and such collections were noted to have been used to finance the Linnix's recurrent expenditure in addition to that appropriated by the house.

Further, Bank balance as per Bank Audit certificate was $103,252.07 credit while the No.5 bank balance as per Annual Account was $9.27m debit. Thus, as usual, a huge difference was resulted from the failure of staff concerned to prepare a regular bank reconciliation statement.

9.1.4. Kiribati High Commission Bank account

A positive balance of $339,237.07 was disclosed in 2009 account while in previous years the balances were not reflected in the account. A non-disclosure of account balance refers to non-compliance with the requirements of accounting reporting standards. Hence, we require MFED to give appropriate explanation on this matter. Furthermore the audit could not verify more on the accuracy of the account since there is no reconciliation performed and bank confirmation provided.

9.1.5. IBD with BOK Ltd

A positive million of $4.7 reported as being the balance for IBD in 2009 is very satisfactory. However the balance is not consistent to the 2008 account since a negative balance of $12 million was reported. As explained by the AG, such IBD account balance reported in 2009 was derived from the court fine (illegal fishing) and was put aside in the IBD account prior transferred to the RERF.

9.1.6. No. 6 account (Stabex)

The overdraft in 2008 of $1.60 million had significantly reduced by $0.12 million (down to $1.48) million in 2009. The reconciliation statement for 2009 had been submitted however is questionable as there are deficiencies in the records. The audit confirmed that almost all of the whole deposits in transit of 97% had been deposited with the bank totaled to $2.05 million. These deposits were outstanding since 2008 and were brought forward to 2009 account. The evidences still existed with the 2008 Bank Statements so adjustments and corrections should be made earlier and therefore not be carried forward. Another instance is that a number of payments totaled $2.1 million for school fee subsidies & others had been misallocated and accounted under the Stabex account whereas in accordance with nature the account this should include only copra funds. It was also noted that this No.6 bank account does not tally with the balance as per footnote 6 in section 8.1.2 above.

Overall, as highlighted from the issues noted above, and prior audit reports, MFED still finds it difficult to prepare a proper bank reconciliation statement for each bank account due to the problem in using Attaché software. The Bank reconciliation statement is deemed proper if it is prepared on a monthly basis as this could easily identify un-presented cheque payments and outstanding deposits. The bank reconciliation statements submitted for the No. 1, No. 4, No.5 & No. 6 were deemed incorrect since they were prepared on a yearly basis. Thus the exercise of identifying un-presented cheques and outstanding deposit at the end of the year would be deemed impossible to do given the high volume of transactions and that supporting documents may not be available by this time. Consequently, supporting documents for such bank accounts were not available to enable us to perform further testing.

This has therefore led us to believe that bank reconciliation as such should not be relied upon.

Recommendations:

- Again I strongly recommend that reconciliations should be implemented as a priority for each individual bank accounts
- Management needs to review its reconciliation statements for the above bank accounts and to correct the above mentioned anomalies accordingly
- Management needs to provide all accounting documents required for audit verification

- Reconciliation procedures should be properly conducted on a monthly basis
- Management has to ensure that bank reconciliation be adequately reviewed so that entries are accurate and completed in time.
- The Accountant General must ensure that these review procedures are thoroughly undertaken

10. Statement No VII: ADVANCE ACCOUNT

The above asset account comprises of advances issued and approved.

Title	2006	2007	2008	2009	Inc/(Dec)'09
Other Govern	7,066.00	7,066.00	7,066.00	7,066.00	0.00
Public Officer	8,838,797.34	9,949,622.15	10,140,865.50	-8,429,836.54	(18,570,702.04)
Miscellaneous	8,701,036.20	8,729,016.04	1,465,080.13	1,824,887.79	359,807.66
Total	**17,546,899.54**	**18,685,704.19**	**11,613,011.63**	**-6,597,882.75**	**(18,210,894.38)**

Table 6a: Position of advances for the past several years

Overall the level of advances had significantly decreased from previous years to a negative balance of $6.6 million in 2009. This is predominantly due to a significant decrease of Public officers' account of $18.6 million to a negative balance of $8.4 million in 2009. As detailed and recommended in my previous audit reports figures appearing under "Other Government" should be written off.

10.1.1. Public Officers

Title	2006	2007	2008	2009	Inc/(Dec)'09
Advances	2,211,132.29	2,638,906.17	2,776,181.66	2,948,848.44	172,666.78
Imprests	2,110,901.69	2,171,109.73	2,126,392.16	2,728,187.19	601,795.03
Stabex Imprest	4,235,986.70	4,604,318.15	4,604,318.15	4,807,955.85	203,637.70
Standing Imprest	280,776.66	535,288.10	633,973.53	19,633.43	(614,340.10)
Other (J0044*)				-18,934,461.45	(18,934,461.45)
Total	**8,838,797.34**	**9,949,622.15**	**10,140,865.50**	**-8,429,836.54**	**(18,570,702.04)**

Table 6b: Breakdown of Public Officers

The net balance of these advance accounts has significantly decreased by $18.57 million ($10.14 m down to negative $8.43 million) in 2009 and is predominantly due to the creation of a new account J0044* amounted to some negative $18.93 million. This creation had totally miss-stated the Public Officers Advance account and even its accounting treatment was incorrect. Because of its nature the balance should be posted in some other accounts. Careful consideration should have been made before making final decision on the most appropriate account such huge account should be posted to.

10.1.2. Advances

The account balance has increased during the years and covers both Salary and Personal Advances that public employees owe to Government. During the review we noted the following issues:

- **$29,450.66 four months advances i.r.o Treasurer Tab-North:** The amount was charged under the treasurer salary advance as a result of unsupported PVs and Debit Notes returns. This also includes unsigned payments without evidences to support that they had been returned. As advised by MFED, a reminder to the officer had been sent but no response in return.

  It is therefore recommended that recoveries should have commenced and officer concerned to be replaced to avoid further leakage of the public fund.

10.1.3. Imprest Travel: $2,126,392 (2008), $2,728,187.19 (2009)

The balance had increased by $601,795 in 2009 compared to 2008. The net balance of $2,728,187.19 was outstanding as at 31 December 2009. In normal practice imprest account should be nil at the end of financial year as an employee has to retire the amount within 10 days upon arrival. During the review we noted the following issues:

- Sub ledger report for 2009 could not be provided.
- From a register the audit noted an outstanding amount of $1.4 million which have not yet recovered by employees. DAG (MFED) advised us that approximately 75% from the amount refers to those outstanding from the 1990s up to 2008 while only 25% relate to current year's outstanding.
- Unavailable Documents totaling $223,543: MFED mentioned that they would search for such documents and send them to us for further review.

Audit Recommendations:

- **Pursuant to his role as custodian of public funds, the Accountant General should, as top priority, commence maintaining a subsidiary ledger which comprises a list of imprest holders and reconcile this to the general ledger;**
- **A monthly aged imprest should be produced to show all outstanding accounts and this is used as a start to produce reminder letters;**
- **A reminder letter should be sent to an employee who fails to pay his/her account within 10 days**

10.1.4. Stabex Imprest (L300A): $4,807,955.85 (2009)*

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

10.1.5. Others (J0044) $-18,581,587.45 (2009)*

This is a new account which includes huge balances of non-accounted debits and credits for the No.1, No.4, No.6, the Banaba State fund of $10,817.51 and others. The account should not exist unless there are irregularities in the accounting procedures especially with bank reconciliation system.

10.2. Advances and Miscellaneous

The three accounts CFTC, Crane South and Naruai should be written off as recommended by PAC and yet still appear in the 2009 account.

Title	2006	2007	2008	2009	Inc/(Dec)'09
CFTC Advance	1,366.00	1,366.00	1,366.00	1,366.00	N/Change
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	8,697,066.22	8,725,046.06	1,461,110.15	1,820,917.81	359,807.66
Total	**8,701,036.20**	**8,729,016.04**	**1,465,080.13**	**1,824,887.79**	**359,807.66**

Table 6c: Advances Miscellaneous

10.2.1. Returned Cheques $1.82 million (2009)

The value of returned cheques as at 2009 had increased significantly by $359,807.66 as compared to 2008. This increase related predominantly to unrecovered balances for personal bounced cheques from prior years.

However after examination the audit noted the following issues:

- Discrepancy between GL and Annual account of $1,449,188.83
- Unrecovered bounced cheques from 2006 to 2009 amounted $32,434.60 which include a balance of only $478.50 for 2009
- From a register unrecovered bounced cheques in 2009 is $15,687.21 while checking to source documents only $478.50 were bounced, a variance of $15,208.71 was revealed

<u>Previous Audit Recommendations:</u>

MFED should:

- **adjust the queries above,**
- **ensure that all cheques are deposited in the bank in a timely manner, eg a day following the receipt from customers.**
- **retain listing of bounce cheques for appropriate immediate replacement/recoveries**
- **review the balances and submit for write off those outstanding cheques that can no longer be recovered.**
- **remind account clerk officers not to allow or accept personal cheques, regardless of its value and MFED to recover from officers not complying .**

11. Statement No IX: DEPOSIT ACCOUNTS

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	2006	2007	2008	2009	(Inc)/Dec'09
Deceased Native Estate	566,053	671,955	-1,121,502	-905,600	215,902
Public Officer	11,979	18,433	-22,233	87,460	109,693
Sundry	147,234	862,864	-2,888,646	-3,254,310	(365,664)
Telmos	1,997,723	1,242,623	-644,482	1,529,010	2,173,492
Total	**2,722,990**	**2,795,876**	**-4,676,865**	**-2,543,440**	2,133,425

Table 8a: Deposit Accounts

At the end of 2009 the Accounts had a net balance of ($2,543,440) which includes huge un-reconciled balances such as Deceased Native Estate accounts, Sundry deposit and Telmos.

11.1.1. Sundry Deposits

In 2008 the net balance for Sundry Deposits account had increased by $365,664 ($2.9m to $3,3m) in 2009.

<u>FDA Loan: $1,145,498.48</u>
This allocation is a direct salary or loan deposit for government civil servants to the bank. The account should be credit in nature however the 2009 account reflected a positive balance of $1.15 million. In this respect we expect a formal explanation from MFED. In addition to that the audit could not perform any further audit due to the unavailability of PVs and HQJVs (358/12 to 380/12). Whilst the JV register was produced, most of the balances did not agree to that of the GL.

<u>Contribution to KPF: $631,138.72</u>
We were not able to test the accuracy of the account due to the unavailability of major PVs amounted to $902,984.67.

<u>Trade Creditors: $118, 156.02</u>
This account should be nil at the end of the financial year as codes credited when payments were made will offset with a contra debit balance when payment was collected by a particular customer. However the account would be outstanding when payments are due and not yet collected by a respective customer. Under review the audit noted that copies of outstanding PVs could not be provided by MFED hence we were not able to verify the correctness of the balance. After discussion with responsible staffs, it was revealed double payment was a major issue which have increased the balance.

This is absurd and hopefully this was not repeated in subsequent years accounts.

All balances should be reconciled and cleared otherwise they will accumulate to a point where MFED will no longer be able to substantiate any.

Overall Recommendations:

Immediate attention must be given to improving and strengthening the overall discipline of reconciliations and review process and procedures. The Accountant General must ensure that the review of processes and procedures are undertaken.

Stringent action should also be considered against supervisory staff who had failed to comply fully with the relevant provisions of the F.R and Cap 79.

12. Statement No X: CONTINGENT LIABILITIES

Bank of Kiribati

The bank of Kiribati was approached to confirm balances. These balances, however, vary considerably to those reflected in the 2009 annual accounts.

		ANZ Bank info @ 31 Dec 2009		
	2009 accounts	Overdraft limit	Utilised amount on OD	Finance Lease
Kiribati Govt	13,119,000	10,000,000	7.92 m	2,735,157
BKL	2,100,000			
BSL	1,000,000			
KCMCL	400,000			
CPPL	300,000			
TSKL	6,747,000			
KCSL	450,000			
KOIL	9,000,000	4,300,000		2,046,439
TBC	50,000	68,000	59,000	Nil
KSSL	5,200,000	2,000,000	2,016,000	5,116,000
PUB	2,939,000	660,000	581,968.10	2,218,229.33
ASC	-	635,000	633,000	Nil
KPA	1,911,000	750,000	702,000	Nil
TKL	510,000			
OHL	200,000	20,000	2,000	119,000
BPA	117,000	100,000	32,000	Nil
KSCL	500,000			
AKL	-	900,000	897,000	207,000
KHLP	-	Nil	Nil	Nil
Total	**44,543,000**	**23.163**		

Table 9a: Contingent liabilities summary

The Government had a finance lease from ANZ Kiribati amounted to $2.7 m. The inclusion of such finance lease in the Annual Account will be impossible, unless the preparation of the Annual Account adopts the Historical Convention or Accrual Basis of Accounting. However, such finance lease should be properly recorded separately.

Recommendation

The MFED should enhance that its figures are reconciled and accord with the bank and payment together with interest cost for such finance lease be maintained and produced for

audit verification. Furthermore additional disclosure should be made with supporting notes.

13. Statement No XI: INVESTMENTS

The statement details two investments: the RERF valued at $570,913,487.02[7] and Other Investments totaling $823,360.25.

13.1.1. Other Investments: $823,360.25

An auditor may perform a number of tests over a basic investment system including:

- Purchases and sales of investments
- Investment income
- Verification of title and value of securities

Audit Findings:

After our pre-test between GL and the balance disclosed in the Annual account, the audit noted the following variances for Other Investments in 2009:

Account	*Bal per GL*	*Bal per A/c*	*Variance*
CBA Investment- Cons Fund	518,063.77	718,607.98	(200,544.21)
Investment with CBA- Stabex	125,078.47	127,833.93	(2,755.46)
Investment with CBA- Coinage	211,633.27	119,376.03	92,257.24
Rothschild & Sons (Investec)	163,077.00	-866,909.41	1,029,986.41

Table 10a: Variances for other investments 2009

13.1.2. Rothschild & Sons (Investec)

Our findings indicated that Investec investment has the highest variance of $1.03 million among such investments. Of significant concern was a positive balance of $163,077 recorded on a GL while a negative balance of 0.87 million disclosed on the Annual account. This is particularly incorrect as GL figure should agree with that appearing in the final account. In this case a review and adjustments for the above investments should be made accordingly.

Account	*Bal per GL*	*Bal per A/c*	*Variance*
AUD a/c 55-1999	No GL	23,819.40	N/A
Aud A/c 56-0449	No GL	8,731.00	N/A
Esrow Investment	No GL	358,377.15	N/A
IFC Subscription	No GL	11,308.50	N/A
IMF No. 2	No GL	292,186.50	N/A
IDA	No GL	11,693.05	N/A
World Bank	No GL	18,336.12	N/A

Table 10b: Unavailability of GL for Other investments 2009

[7] RERF addressed Section 16- Statement No. XX

With respect to the above table, the MFED was not able to provide GL details or any relevant source documents to enable us to verify the existence and ownership of these investments. Note: GL as per Record/Annual Account

As a recommendation MFED should enhance its controls over "Other Investments'. Whilst MFED is searching for the existence, ownership and completeness of these investments, once obtained, those should be sent to my office for review.

14. Statement No XII: LOANS ISSUED FROM THE CONSOLIDATED FUND and OTHERS

14.1.1. Overall Total of Outstanding Loan: $7,070,185.45

Section 39(i) (XII) of the Public Finance (Control and 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 2009.

14.1.2. 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
Te Mautari 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**	

Table 11a: Loans from the Consolidated and Development fund

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.

2008 Recommendation:

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

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.

15. Statement No XIII: PUBLIC DEBT – LOAN from Asian Development Bank

The following loans are considered Public Debt which essentially means that when the ADB demands repayment of the loan and if the borrower is unable to pay back the loan, then such loans will have to be repaid back from public funds.

Reported in 2009 Public debts are still inactive however in comparison the total outstanding of $17,034,181.13 in 2008 was significantly decreased by $1.45 million (was down to $15,579,560.95) in 2009.

		Actual Balance per			
Debt Servicing	**MIR Budget**	**MIR**	**Annual a/c**	**2009 (Over)/Under**	**2009 Variance**
ADB Loan No. 281 KIR (SF) Nippon	42,000	222,009	30,236	(180,009)	191,773
ADB Loan No. 724 KIR (SF) Betio S	60,000	45,359	33,240	14,641	12,119
ADB Loan No. 786 KIR (SF) PUB	45,000	46,040	46,272	(1,040)	(232)
ADB Loan No. 922 KIR (SF) PUB	45,000	41,743	184,792	3,257	(143,049)
ADB Loan No. 1039 KIR (SF) DBK	30,000	29,171	15,528	829	13,643
ADB Loan No. 1648 KIR (SF) SAPHE	125,000	227,997	463,769	(102,997)	(235,772)
Total	347,000	612,319	773,836	-265,319	-161,517

Audit found that the figures for M/R[9] and Annual a/c differed by $161,517 when they should be the same amount. However, it was noted that repayment for some of these ADB loans were excessively overpaid, which is a direct breach of the Appropriation Act 2009. Further Audit could not see the reason why these two records differed.

2008 Recommendation

The GOK should formally write to ADB and seek clarification in relation to this debt. 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.

[9] Refers to Management Information Report

16. Statement No XIV: ARREARS OF REVENUE.

Under section 65 of the FR 1974 all Accountable Officers responsible for the collection of revenue are required to submit a return of arrears of revenue to the Accountant General not later than the 31st January. The Consolidated Return is required to be rendered by the Accountant General under Section 39(1) (XIV) of the Public Finance (Control & Audit) Act.

Year	Balance	Year	Balance
1972 - 1998	8,677,026	2004	265,133
1999	541,622	2005	2,880
2000	699,245	2006	2,880
2001	547,876	2007	2,880
2002	10,749	2008	4,080
2003	352,385	2009	496,506.54
		Grand Total	**11,603,263**

Table 13a: GOK Yearly breakdown of the total arrears of revenue

The total balance reported at the end of financial year 2009 was $11.6 million which included an outstanding balance of $8.67 million from 1972-1998 plus $2.43 million in subsequent years and a proportion of only 4% in 2009. As stated in my prior report there was very little chance that these amounts will be recovered. Thus written off action by MFED should be considered and collection of revenue be strengthened and monitored.

16.1.1. MELAD- Arrears of revenue

According to the 2009 account MELAD arrears had a very dominant balance of $491, 236.88 compared to other ministries' arrears. These amounts were due but are not yet collected from various tenants. MELAD arrears of revenue are mainly on the sub lease rental fees which are controlled and managed by the Land department.

During the review of the account the following issues were noted:

- ✓ Significant variance of $392,123.46 between the GOK Annual account and the sublease outstanding list 2009. As explained by the Director of Lands the variance could refer to accumulated outstanding dues from previous years but not yet confirmed.
- ✓ Unavailable documents for tenant lease agreements totalled up to $21,174.82

Recommendation: **Management should enforce Proper Filing system in keeping all documentation (Sublease Agreement) in a safe place where it can be easily found and located for audit verification and control purposes.**

17. Statement No XV: DEVELOPMENT FUND

17.1.1. Establishment and Purpose of the Fund

The Development Fund is a special fund as defined by sections 10 of Cap 79 and 107(2) and (3) of the Constitution and is used to finance development projects from donors' funds. The Fund consists of cash and `in - kind` aid provided by various external aid donor countries and aid agencies.

17.1.2. Overall Position of the Fund

The value of the Development Fund as at 31 December 2009 disclosed in Statement XVI was $3,785,526.62 (2008: $9,312,953.35). This figure however did not agree with the balance as per Statement VI nor includes amounts paid or received directly to individual Ministries. The In kind aid was also not included therefore was contrary to contemporary accounting practices.

17.1.3. Bank Reconciliation

As in previous years the account could not be verified due to the discrepancies found in the bank reconciliations statement prepared for 2009. Refer to section 9.1.2 above

17.1.4. General findings

The Audit office also undertook a review of a number of development projects during the year that were reported to the respective donors and Ministries. Overall we found in a number of cases that project documentation, PVs and RVs could not be located. Therefore greater care should be exercised over development projects to ensure records are maintained and made available for audit purposes.

Recommendations

- *Bank reconciliations for the No 4 account need to be undertaken on a monthly basis,*
- *Measures should be instigated to capture and report in - kind aid,*
- *Records should be safeguarded and presented for audit purposes and*
- *To streamline all incoming aid therefore in order to give a true picture of development fund flowing in to Kiribati, a database need be established by MFED for all projects, including those specifically managed by Government Ministries by other organizations and individuals or residents as all such aid funds were initially intended for the benefit of the people. To encourage quarterly reports from fund managers showing progress on the activities including the trend of the fund balance per quarter the fluctuation of which would show withdraws as well as injections by the donors.*

18. STATEMENT XIX: CASH in TRANSIT

The account represented 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 still exist due to the time factor from when the money was paid in and the time it was paid out.

At the end of 2009 Cash in Transit had been significantly reduced by 66% with a net balance of $2.4 million compared to 2008 figure of $7.26 million ($2,505,366.81: 2007, $2,458,878.54: 2006)

During the audit the following irregularities and anomalies were noted for 2009:

- Omitted remittances totalling ($ 97,272.50)
- Outstanding remittances totalling ($ 4,417,116.65)
- Outward register for remittances was not provided while inward register was provided but not maintained and updated regularly
- Kanton received RBC from Kiritimati No. 5 account, although the balance could not be easily verified since the returns were directly posted to the MFED in South Tarawa

Prior Audit issues:

- Reconciliation of the account was not performed periodically and
- Anomalies with Fanning & Kiritimati returns not yet addressed.

Audit Recommendation

MFED should correct the anomalies mentioned above and, as top priority, to commence reconciliations with immediate effect.

19. Statement XX: RERF

19.1.1. Overview[10]

The economic importance of the Revenue Equalization Reserve Fund (RERF) to the people of Kiribati cannot be over-emphasised. 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.

19.1.2. 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.

However since 2005 the overall drawdown from the RERF up to 2009 is $149 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.

19.1.3. 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.

19.1.4. RERF Analysis

The bar chart (fig. 16 a) 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 2009 and 2008 are $570.91 and $561.60 million respectively.

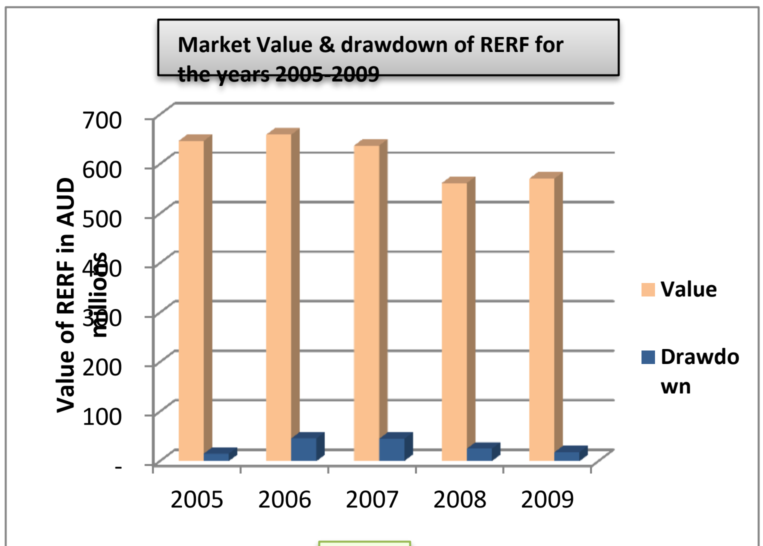

Figure 16 a

19.1.5. Value of the fund

As clearly indicated the value of the RERF for 2005 was some $647 million and slowly increased by 2% in the following year. The value of the fund in 2006 ($659.6m) seems to be the highest compared to subsequent years. For the years 2007 & 2008 the RERF decreased by 3 & 12 percent respectively. However at the end of

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

financial year 2009 the value increased again by 2% to $571 million.

19.1.6. Draw- Down

It was pleasing to note that the 2009 drawdown from the RERF of $18 million was under the approved amount of $26.3million (2008: $25m; 2007: $45m). In comparison the year 2006 highlighted the highest drawdown from the RERF of $46 million while 2005 was the lowest with only $15 million. As all are aware of the fluctuation of the drawdown figure of the RERF indicates either an increase in expenditure or a decrease in the revenue.

19.1.7. Total Income

The income for the year 2009 achieved by HSBC was $27.9 while NICAM had $9.5 million thus amounted to Au$ 37.4 million[11].

19.1.8. Overall Return

Also pleasing to note was the overall return of the fund for 2009 of 5.3%, which was well above the composited benchmark of -2.45%, thus indicated that either the Fund managers of the RERF had performed quite well over the years or the market was promising investment returns.

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[11] Accountant General, MFED, *Republic of Kiribati Annual account for the year ended 31 December 2009*, p.129.

20. Status of State Owned Enterprises

Listed in the table below is the status of State Owned Enterprises as of August 2012.

No	Agency	Report Date	Last Audit	Rec'd A/cs	Overdue Accounts
1	Air Kiribati Limited	31-Dec	2010	2011	
2	Betio Shipyard Limited	31-Aug	2009		**2010 - 2011**
3	Bobotin Kiribati Limited	31-Dec	2010	2011	
4	Broadcating Publication Authority.	31-Dec	2003	2006 - 2007	**2008-2011**
5	Captain Cook Hotel	31-Dec	2010	2011	
6	Development Bank of Kiribati	31-Dec	2010	2011	
7	Kiribati Central Pacific Producers	30-Apr	2011		
8	Kiribati Copra Mill	31-Dec	2010	2011	
9	Kiribati Copra Society	31-Dec	2009		**2010-2011**
10	Kiribati Handicrafts	31-Dec	2008	2009-2011	
11	Kiribati Housing Corporation	31-Dec	2006-2009		**2010-2011**
12	Kiribati Insurance Corporation	31-Dec	2006-2009	2010-2011	
13	Kiribati Oil Company Ltd	31-Dec	2010	2011	
14	Kiribati Port Authority	31-Dec	2008		**2009-2011**
15	Kiribati Provident Fund	31-Dec	2007	2008-2009	**2010-2011**
16	Kiribati Shipping Services Limited	31-Aug	2007		**2008-2011**
17	Kiribati Solar Energy Company	31-Dec	2009		**2010-2011**
18	Otintaai Hotel Limited	31-Dec	2009	2010 - 2011	
19	Plant & Vehicle Unite	31-Dec	2009		**2010-2011**
20	Public Utilities Board (PUB)	31-Dec	2008	2010-2011	
21	Telecom Authority of Kiribati	31-Dec	2011		
22	Telecom Services Kiribati Ltd.	31-Mar	2008		**2009 - 2011**
23	Television Kiribati Limited	31-Dec	2008	2009 - 2010	**2011**

As can be analysed from the above table, more than half (or 12) of the total number of SOE have been complying with the statutory timeframe for submission of financial statements for audit. So we still have those who may find it quite difficult to submit their financial statement for audit on time. Those complying with this obligation should be commended while those still failing need be encouraged.

It is anticipated that by end of 2013 all SOEs will submit their financial accounts by the due dates and those not complying should have their Board members and management severely punished under the Companies ordinance and their respective governing Acts.

21. APPENDICES:

21.1 Major Revenues Summary 2009 (extracted from divisions record)

Month	Custom duty	Xmas duty	Fishing license	Company tax	Paye tax	Hotel tax	Total
Jan	1,108,963.99	5,477.65	481,806.04	520,596.09	694,363.06	2,348.21	3,047,988.60
Feb	1,050,363.14	22,228.07	642,257.97	71,863.32	581,213.24	8,832.29	2,433,965.54
Mar	1,233,610.77	86,970.33	1,457,761.86	176,104.54	565,177.79	17,526.23	3,989,026.52
Apr	1,170,059.61	17,926.49	1,576,540.59	1,227,036.80	538,419.83	10,984.26	4,756,941.54
May	1,511,355.91	104,593.90	2,882,423.31	135,177.25	480,328.98	11,888.37	5,234,239.92
Jun	1,086,471.92	29,235.17	3,451,576.87	282,248.92	314,923.54	8,625.91	5,541,915.50
Jul	1,186,076.43	91,505.82	1,881,410.66	1,542,131.93	192,150.86	10,229.93	5,201,197.94
Aug	1,267,321,.63	22,519.20	3,100,979	1,040,689.63	239,479.92	6,249.67	5,931,172.25
Sep	1,042,482.30	75,454.19	4,939,574.11	109,023.96	353,860.18	4,809.53	6,837,539.76
Oct	1,104,472.51	10,940.70	1,172,111.08	800,262.61	421,170.64	14,085.01	3,740,142.44
Nov	1,174,099.02	73,483.73	1,447,513.64	463,993.68	424,706.79	7,956.71	3,925,358.15
Dec	1,429,886.78	766.4	6,792,336.37	110,073.64	398,016.31	11,282.73	8,990,503.24
Total	**14,365,164.01**	**541,101.65**	**29,826,291.50**	**6,479,202.37**	**5,203,811.14**	**114,818.85**	**59,629,991.40**

21.1. Copra Fund- Auditing XXX 2009 (Extract Report)

There are twelve copra agents operating on the island registered as cooperatives and have been functioning for several months. Each cooperative has its own manager, copra weigher, copra shed, stable committee and shareholders.

These cooperatives were investigated to ascertain actual copra stock leakage cause. All CPRs were matched against actual stock on hand, physically weighed after shipment. The result of the analysis is summarized below:

Copra Stock Leakages Account for the period ending 02 June 2009

Cooperative	Accounting Period	Opening Stock	Add Purchases	Total C. Purchases (mt)	Less C. Ship (mt)	Expected Stock on hand (mt)	A.Stock on hand (mt)	Stock Leakages (mt)	Stock Leakages ($)
1.Village 1	01/01/09-01/06/09	0.00	34.17	34.17	24.71	9.46	0.63	8.83	(5,298.00)
2.Village2	01/01/09-02/06/09	0.00	32.77	32.77	56.69	23.92	4.61	19.31	11,586.00
3.Village 3	01/01/09-02/06/09	0.00	14.50	14.50	12.10	2.40	2.45	0.05	30.00
4. Vill4	01/01/09-02/06/09	0.00	57.27	57.27	58.43	1.16	2.46	1.30	780.00
5. Vill5	01/01/09-02/06/09	0.00	53.78	53.78	33.04	20.74	0.47	20.11	(12,066.00)
6. Vill6	01/01/09-02/06/09	0.00	8.02	8.02	5.71	2.31	0.78	1.53	918.00
7. Vill7	01/01/09-02/06/09	0.00	129.01	129.01	54.48	74.53	0.19	74.34	(44,604.00)
8.Vill 8	01/01/09-02/06/09	0.00	5.13	5.13	5.79	0.66	4.57	3.91	(2,346.00)
9. Vill 9	01/01/09-02/06/09	0.00	53.67	53.67	116.04	62.37	0.95	61.42	36,851.40
10.Vill 10	22/04/08-02/06/09	0.00	127.80	127.80	57.75	70.05	1.08	68.97	41,382.00
11.Vill 11	02/04/09-30/05/09	0.00	3.55	3.55	0.00	3.55	3.54	0.01	(6.00)
12. Vill 12	30/10/08-02/06/09	0.00	21.86	21.86	13.49	8.37	2.07	6.30	(3,780.00)
Total		**0.00**	**541.53**	**541.53**	**438.23**	**279.52**	**23.80**	**266.08**	**23,447.40**

The above copra stock leakages account shows a total leakage amounting to $23,447.40 for the periods 01/01/09 to 02/06/09. Figures in brackets and highlighted cooperatives indicate copra stock leakage. On the other hand, there were cooperatives with surpluses on copra stock resulting from more copra shipments compared to the actual copra purchases and copra stock on hand. This should not be the case unless there were errors in the weighing process and shipping manifests manipulated.