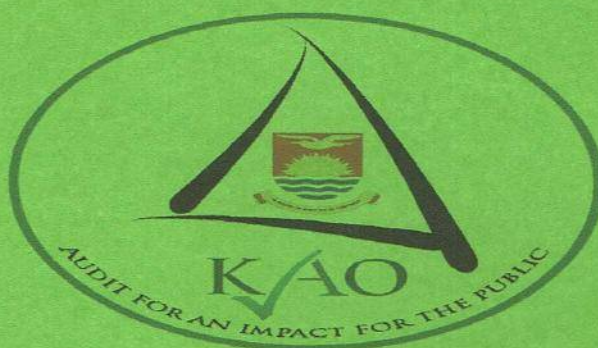


REPORT OF AUDITOR GENERAL



ON THE ACCOUNTS OF KIRIBATI GOVERNMENT ANNUAL ACCOUNT

PART 2: STATEMENTS I TO XIX FOR THE YEAR ENDED

31 DECEMBER 2016

REPORT OF THE AUDITOR GENERAL ON THE 2016 GOK ANNUAL ACCOUNT PART 2

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I) ACRONYMS

ADB – Asian Development Bank
DNE – Deceased Natives Estimate
EEZ –Economic Exclusive Zone
FR – Financial Regulation
FY – Financial Year
GL – General Ledger
GOK – Government of Kiribati
JV – Journal voucher
KNAO – Kiribati National Audit Office
KPPS – Kiribati Police and Prison Services
LCDF – Local Contribution to Development Fund
MCIC – Ministry of Commerce, Industry and Cooperatives
MCTTD – Ministry of Communication, Transport, Tourism and Development
MELAD – Ministry of Environment, Lands and Agricultural Development
MFAI – Ministry of Foreign Affairs and Immigration
MFED – Ministry of Finance and Economic Development
MFMRD – Ministry of Fisheries and Marine Resources Development
MHMS – Ministry of Health and Medical Services
MIA – Ministry of Internal Affairs
MLHRD – Ministry of Labour and Human Resource Development
MLPID – Ministry of Line and Phoenix Development
MM – Maneaba Ni Maungatabu (Parliament)
MOE – Ministry of Education
MPWU – Ministry of Public Works and Utilities
MWYSA – Ministry of Women, Youth and Social Affairs
OAG – Office of the Attorney General
OB – Office of Te Beretitenti
OPL- Office of the Peoples Lawyer
PAC – Public Accounts Committee
PSC – Public Service Commission
PSO – Public Service Office
PV – Payment voucher
RBC – Remittance between chests
RERF – Revenue Equalization Reserve Fund
UN – United Nations
VAT – Value Added Tax

II) EXECUTIVE SUMMARY

i) SCOPE AND METHODOLOGY

As was the case in our previous audits, the scope of our audit was extended to cover also activities funded by projects: both from Local and Overseas donors approved by Parliament. Under the year of review we had audited few of projects funded by our Development Partners including the locally funded projects. Our audit testing revealed the same persisting problem of the **lack of proper reconciliation of accounts**.

ii) FINANCIAL ANALYSIS

a) Budget Result (Expenditure and Revenue Budgets)

As normally practiced in all democratic countries worldwide, the government has to prepare and approve annual budget. In December 2016, the government had approved the original budget 2016 of **\$150,895,634**. With the total supplementary of \$26,886,034 the total revised budget should have read \$177,781,668 but as appeared in the annual account was \$177,072,588, thus resulting in a variance of \$709,080, the significant amount of which is pervasive and would disclaim the accounts.

Because of the error in the revised budget, the net saving for the year should be \$3,410,965 and not \$2,701,884 as appeared in the annual account!

The revenue collected for the year was \$209,258,754 and this was less than the collection in 2015 of \$253,315,090, thus incurring a shortfall of \$44m. This was mainly caused by the drastic drop in revenue from fishing license.

b) Development Fund (Receipts and Payment)

The total development fund receipts in 2016 had increased to \$57,495,227.86 (2015:\$52,212,972.20) while total expenditure dropped to \$44,379,180.97(2015: \$47,519,405.86) thus resulting in a net balance of \$13,116,046.89. The total development fund at the year-end 2016 should be \$39,047,879 when aggregating it with the closing balance reported in 2015 of \$25,931,831.54. Our gratitude goes to overseas donors for their continued support to the Government of Kiribati.

c) Revenue Equalization Reserve Fund (RERF)

The government should be embraced for remarkable performance that had led to accumulating funds in the RERF by not activating any withdrawals within two consecutive years, i.e. from 2015 to 2016. There was a contribution made to the State street cash trust of \$45m that was omitted in 2015 and this had increased the value to \$125,850,393 while in the same year internal cash transfer of \$70m from the same account to Northern trust and Blackrock of \$35m respectively. The NEPO record for the RERF, as was also mentioned in my previous report, was different with what was reported in 2016 annual account since NEPO classified State Street as not part of the RERF but reported it separately as an offshore cash trust account.

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d) Fishing License Revenue

The actual revenue collected has declined by \$54,458,708 (\$197,754,163 in 2015 less \$143,295,455 in 2016) and if this continues in future years this would call for consideration of other means to either recoup the loss in revenue or device control measures that will assist in reducing the actual expenditure for whole of government.

e) Value Added Tax (VAT)

Apparently, the total VAT collected in 2016 after its third year of implementation has risen from \$14,548,404(2015) to \$15,258,746(2016) incurring an increase of \$710,342(6%).

Therefore it is of paramount importance management of the VAT regime should ensure all VAT revenues are paid on a timely manner and appropriate recovery actions are enforced on those not fully complying with such regime.

f) Employee cost to the budget

In 2016 the total budget for employees (i.e. salaries, temporary and wages) was \$39,156,409). The actual expenditure incurred during the year (2016) was \$39,020,380 thus resulted in net saving of \$136,029 over the total budget.

g) Government Assets Management

As we are all aware there is no assets register for monitoring and controlling all government assets particularly the government long term assets the absence of which will make it not possible to draw up a plan on appropriate maintenance or replacement schedules for all government assets. This could be evidenced by a large number of government buildings which are in an already dilapidated stage. The management over the public assets/resources is crucial for enabling government to deliver key services to its citizens and visitors. Good management on government assets could reduce waste, improves economic performance, enhance social service, improve community lifestyles, safeguards the environment and will make a difference to the lives of citizens. The risks to governments on poorly managed public assets/resources can be significant and material and thus could result in misappropriation of public funds.

h) Whole of Government budget estimate against actual expenditure by output.

The whole of government budget estimate against actual expenditure depicts the level of expenditure from the highest to the lowest, re attached appendix 5.5. The analysis specifically highlighted the top 5 highest outputs in expenditure which are as follow; Salaries \$36m, Leave grants \$6m, Allowance \$4m, External travel \$3m and local services \$3m. The purpose of this insertion for the first time is to assist future audits on the performance of service deliveries by civil servant so value for money is realized and public funds are spent economically, i.e. not waste, and in the most efficient and effective manner.

III) FOREWORD

In accordance to Section 39 of the Public Finance (Control and Audit) Act 1976 the Annual Account of the Republic of Kiribati should be presented and submitted to the Auditor General within six months after the end of the financial year 31st December for scrutiny purposes. The 2016 Annual Account was submitted on the **14 June 2017**, which is within the statutory timeframe.

The 2016 annual accounts were prepared under the Cash Basis Accounting and comprised of the Balance Sheet or Financial Position (Statement I refers) and Statements of Income (Revenue) and Expenditure or Financial Performance (Statement II refers). The disclosure of the Annual Accounts follows the requirement of the specific provisions of the Public Finance (Control and Audit) Act, 1976 as amended.

Other disclosure requirements that do not form part of the Annual Account include: *Contingent Liability, Arrears of Revenue, Public Debts and Losses of Fund.*

As had been earlier mentioned in my previous audit report, the scope of our audit was extended to cover also activities funded by projects: both from Local and Overseas approved by Parliament. Under the year review we had audited few of projects funded by our Development Partners including the locally funded projects. Our audit testing revealed the same persisting problem of the **lack of proper reconciliation of accounts.**

Despite above comments, it was, however, pleasing to note a substantial increase in Government's revenue when comparison is made with previous year's total revenue due to the notable improvement in the revenue collection from fishing license. The net saving reported this year by Ministries had increased from **\$2.9m (2015) to \$3.4m (re comment under ii) a) above)** respectively and that also included the unused budget provisions for Other Government Expenses.

Because of the issues repeatedly detected, the position of the 2016 Annual Account was still far from attaining its objectives of relaying reliable information on the stewardship of the scarce resources of the Republic of Kiribati.

Definitely, I have to reiterate again that the remedial actions to the above issues would be the professional implementation of audit recommendations. The public audit by definition is not only an expression of opinion on financial statement but also to bring about reform to government financial operations and reporting so that the public are well informed on how well their scarce resources have been managed and whether public funds appropriated have been used as intended.

IV) AUDIT OPINION

We have audited the Government Annual Account for the year ended 31 December 2016. The preparation and presentation of the accounts are the responsibility of the Accountant General who transmitted them to Audit Office in accordance with Cap. 79 Part VI of the Public Finance (Control and Audit) Ordinance 1976. It is also the responsibility of the Accountant General to ensure the information contained therein, as well as the existence of internal controls, should be fully effective for the prevention of error or fraud.

My responsibility is to express an opinion on the account based on my audit as required by Section 114 of the Constitution and Part V and VI of the Cap 79 of the Public Finance (Control and Audit) Ordinance 1976 as amended.

We conducted our audit in accordance with the provisions of the Ordinance 1976 to provide reasonable assurance together with relevant statutory and normally accepted auditing standards as to whether the accounts are free of material miss-statements and errors. My procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the accounts and ensuring that operations are delivered within the appropriated funds. 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, present a fair view of the transactions of the Consolidated Fund including other matters and are in consistence with my understanding of those operations.

The accounts, however, does not purport to reflect the total activity of Government and, as it is prepared essentially on a modified cash basis, it does not disclose at year end the unpaid commitments. Further it also does not disclose Government Fixed Assets and Liabilities or project funds received outside of the Government No. 4 bank account neither opening balances of such at the beginning of the year 2016.

Qualifications

- The error noted in ii) a) para. 1 above is pervasive to the entire annual account.
- Under-collection of revenue by some major source of revenue in the sum of \$235k (Open ship registration) and \$47k (Nasda)- (refer section 3.1.1)
- Shortfall of revenue by Ministries which aggregating to \$260k for 2016. (refer section 3.1.2)
- Unauthorized spending by Ministries for year ended 31/12/2016 amounted to \$1.5m (refer section 3.2.4)
- Unbudgeted and unutilized of approved provisions for ADB loan (refer section 3.2.6)
- Variance exist when adding original budget plus supplementary against revised budget (refer 3.2.10)
- There was waste incurred when KPF was over paid by \$46,627.74 (refer 3.2.11)
- The inclusion of Stabex/No.6 Stabex fund along with Leper Trust Fund and Escrow as these funds were no longer suitable as Special fund accounts (refer section 3.3.)
- Incorrect allocation of recurrent dev clearing account of \$918k reflected under special funds (refer section 3.3.1)
- The absence of the Bank Audit Certificate requested for the year 2016 (refer section 3.4.2.1)
- Incongruities/Issues detected when performing audit testing of the Government NO.1 and NO.4 (refer section 3.4.2 to 3.4.3.3)
- The un-reconciled of bank balances in respect of the Gov't No. 5 account and KHC bank account (section 3.4.4 & 3.4.6 refers)
- Anomalies/issues repeatedly detected under Advances from Consolidated Fund (section 3.5 statement VII refers)
- Poor reconciliation noted under Statement IX: Deposits (refer to section 3.7)

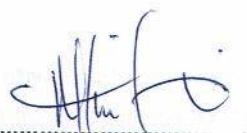
REPORT OF THE AUDITOR GENERAL ON THE 2016 GOK ANNUAL ACCOUNT PART 2

- The overstatement of the Government net worth by the inclusion of Escrow Fund under Statement XI: Investments, and Statement V: Special Fund had wrongly overstated the net worth. This had not been responded in last year audit report hence the purpose of inclusion here. (section 3.3 & 3.9 refers)
- The incomplete format /table of Public debts presented in 2016 annual account (refer section 3.11)
- Government total accumulating arrears brought forward from previous years totalled up to \$30m (refer section 3.12)
- Un-authorized spending of \$2.15m (section 3.13 refers)

Disclaimer 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 significant effect of matters discussed in the qualification paragraphs above, the annual account for the Government of Kiribati did not present fairly in accordance with the applicable Accounting Standard and other mandatory professional reporting requirements of the financial position of Government as at 31 December 2016 and the results of its operations and its cash flows for the year then ended.

Because of the significance of the matters referred to in the Basis for Disclaimer Opinion above, I have not been able to obtain sufficient appropriate audit evidence, and accordingly I **COULD NOT** express an opinion on the Annual Accounts for the Government for the year ended 31st Dec, 2016.



Mrs. Matereta Raiman
Auditor General

V) COMPLIANCE WITH LEGAL REQUIREMENT**I) LEGISLATION COMPLIANCE SYSTEMS**

We noted not much attention was paid to the provisions of governing legislations and regulations by accountable/accounting officers therefore we highly recommend that all supervisors should make sure their accounting officers have on hand and observe governing legislations to guide them when managing public funds.

II) BREACHES OF SIGNIFICANT LEGISLATION

During the audit, our main focus is on the Government of Kiribati financial reporting obligations. As part of our planning process we identified CAP 79 the Public Finance (Control and Audit) Ordinance 1976 and Financial Regulations 2011 (FR 11) as key governing legislations with which Accountable and Accounting Officers should comply. We noted the following breaches of provisions of the legislations mentioned above.

Non-compliance with CAP 79 Public Finance (Control and Audit) Ordinance 1976 and Financial Regulations 2011

- *Section 2.1.1 states that 'Account books, forms and financial records may be kept and maintained either through paper means or through electronic means, subject to the authority and approval of the Accountant General and Auditor General'*
- *Section 27 states that 'any deposit which is unclaimed for 5 years shall be paid into the Consolidated Fund for the public purpose of the Government. Provided that if any person entitled thereto shall subsequently prove to the satisfaction of the Chief Accountant his claim to any such deposit the Chief Accountant shall thereupon refund to such person his deposit'*
- *FR Sec 16.13 states that 'an officer operating a Government bank account shall reconcile his cash book with a bank statement at the close of each month. He shall prepare a reconciliation statement which must detail all outstanding cheques or credit slips, and fully explain any differences between the balances shown in the cash book and in the bank statement'.*

It is evident during the audit that not all accounting officers who held bank accounts reconciled their cash book with the bank statement at the close of each month. It is noted that reconciliation for some bank account (No.5 & No. 17) had been carried out but inconsistently with standard format and the inability to complete/update their reconciliations as per noted while conducting this year audit (Refer to sections 3.4.4 & 3.4.6 – Statement VI: Cash at bank and on hand).

REPORT OF THE AUDITOR GENERAL ON THE 2016 GOK ANNUAL ACCOUNT PART 2
ANNUAL SCORECARD FOR FINANCIAL YEAR 2016

STATEMENT	GL CODE	ASSETS	2015	2016	2015 RATING	2016 RATING
XI	V	Total Investment	849,465,605.29	938,321,523.11	B	B
VI	M	Total Bank Accounts & Cash	67,927,213.20	115,074,536.76	C	B
VIII		ADVANCES				
VII	J	Other Advances	830,371.73	830,371.73	D	D
VII	K	Sundry Advances	-387,182.72	-235,175.13	D	C
VII	L	Imprest and Salary Advance	11,674,504.73	12,538,634.61	C	C
		Total Advances	12,117,693.74	1,066,529,891.08		
IX	I	Total Telmo Paid	241,690,807.83	269,599,516.85	C	C
XVI	Z	Total Suspense Account	4,879,902.28	4,881,972.70	D	D
		Net Total Assets	1,176,081,222.34	1,341,011,380.63		
LESS		LIABILITIES				
IX	S	Deceased Native Estates	-1,020,977.67	-1,253,402.14	D	D
IX	Q	Salary Allotments	-21,517.35	-21,617.35	C	C
IX	O	Sundry Deposits	-5,115,516.81	-10,075,040.55	D	D
IX	P	Telmo Received	-236,110,163.03	-258,394,174.02	D	D
IX	T	SAYE	-12,901.65	-15,191.65	C	C
		Total Liabilities	-242,281,076.51	-269,759,425.71		
		NET TOTAL ASSETS	933,800,145.83	1,071,251,954.92		
		Consolidated Fund				
II & III	E	Recurrent Expenditure	308,231,077.11	174,370,703.34	C	C
II & III	C	Recurrent Revenue	-253,315,089.80	-209,258,754.56	B	B
		Development Fund				
XV	H	Development Expenditure	47,519,405.86	44,379,180.97	C	C
XV	N	Development Revenue	-52,212,972.20	-57,495,227.86	C	C
V	F	Special Fund	-984,022,566.81	-1,023,247,856.81	C	C
		Grand Total	-933,800,145.84	-1,071,251,954.92		

VI) OVERVIEW

This report is part 2 of the Auditor General report on the Annual account of the Government of Kiribati and it presents the results of audit findings for *Statements I to XX* aligned with the contents of the Annual Account 2016 provided by MFED (Balance Sheet). Recommendations given in this report which aimed at improving programs and operations and lend to providing better services to the public are the bottom lines of our audit work.

Most of the issues highlighted in this report were still repetitive indicating a slow improvement in the system. We are concerned of the effect the poor status of the Annual Accounts would have on high level management and economic decision.

As government is essentially operating on **cash basis** there has to be an effective system in place for control and management of cash and bank accounts coupled with regular supervised reconciliation the absence of which would result in drastic drain in government coffer.

Government through its MFED management arm is primarily responsible for resolving and implementing recommendations promptly and effectively. At the same time, we, as auditors, with the assistance of the PAC (Public Account Committee), are responsible for following up to see that actions are taken and intended result are realized.

REPORT OF THE AUDITOR GENERAL ON THE 2016 GOK ANNUAL ACCOUNT PART 2

1) STATEMENT I: BALANCE SHEET AS AT 31/12/16

Findings and Analysis:

1.1 GOK Assets and Liabilities

In accordance with Cap 79, Section 40(i), the Accountant General is required within six months after 31st December to transmit the Balance Sheet as part of the Public Account to the Auditor General for scrutiny purposes. At the end of this fiscal year, 2016, the Balance Sheet for Government of Kiribati (GOK) held and incurred the following assets and liabilities.

Table 1.1 A: GOK Assets and Liabilities (2014-2016)

Description	FY 2014	FY 2015	FY 2016	2015 inc/(dec)	2016 inc/(dec)
ASSETS					
INVESTMENT					
RERF	678,971,072.93	837,109,589.96	925,965,507.78	158,138,517.03	88,855,917.82
Land in Fiji	11,923,404.00	9,300,180.00	9,300,180.00	- 2,623,224.00	-
PIPA Trust fund	-	2,623,224.00	2,623,224.00	2,623,224.00	-
Other investment	619,340.17	432,611.33	432,611.33	- 186,728.84	-
	691,513,817.10	849,465,605.29	938,321,523.11	157,951,788.19	88,855,917.82
CASH					
Cash at bank and on hand	116,630,690.27	66,317,287.20	112,501,558.92	- 50,313,403.07	46,184,271.72
Cash in transit (RBC)	1,011,235.49	1,609,926.00	2,572,977.84	598,690.51	963,051.84
	117,641,925.76	67,927,213.20	115,074,536.76	- 49,714,712.56	47,147,323.56
ADVANCES					
Other Advances	829,171.73	830,371.73	830,371.73	1,200.00	-
Imprest and Salary Advances	10,718,866.72	11,674,504.73	12,538,634.61	955,638.01	864,129.88
Sundry Advances	- 412,492.10	- 387,182.72	- 235,175.13	25,309.38	152,007.59
Total Advances	11,135,546.35	12,117,693.74	13,133,831.21	982,147.39	1,016,137.47
Telmos Paid	217,551,011.12	241,690,807.83	269,599,516.85	24,139,796.71	27,908,709.02
Suspense account	4,885,005.56	4,879,902.28	4,881,972.70	- 5,103.28	2,070.42
TOTAL ASSETS	1,042,727,305.89	1,176,081,222.34	1,341,011,380.63	133,353,916.45	164,930,158.29
LIABILITIES					
DEPOSITS					
Deceased Native Estates	- 1,181,224.36	- 1,020,977.67	- 1,253,402.14	160,246.69	- 232,424.47
Salary Allotments & SAYE	- 32,420.50	- 34,419.00	- 36,809.00	1,998.50	- 2,390.00
Sundry deposits	863,582.04	5,115,516.81	10,075,040.55	5,979,098.85	4,959,523.74
Telmos Received	- 218,345,450.54	- 236,110,163.03	- 258,394,174.02	17,764,712.49	- 22,284,010.99
Total	- 218,695,513.36	- 242,281,076.51	- 269,759,425.71	- 23,585,563.15	- 27,478,349.20
NET TOTAL ASSETS	824,031,792.53	933,800,145.83	1,071,251,954.92	109,768,353.30	137,451,809.09

(Source: GOK Annual Accounts: 2015-2016)

REPORT OF THE AUDITOR GENERAL ON THE 2016 GOK ANNUAL ACCOUNT PART 2

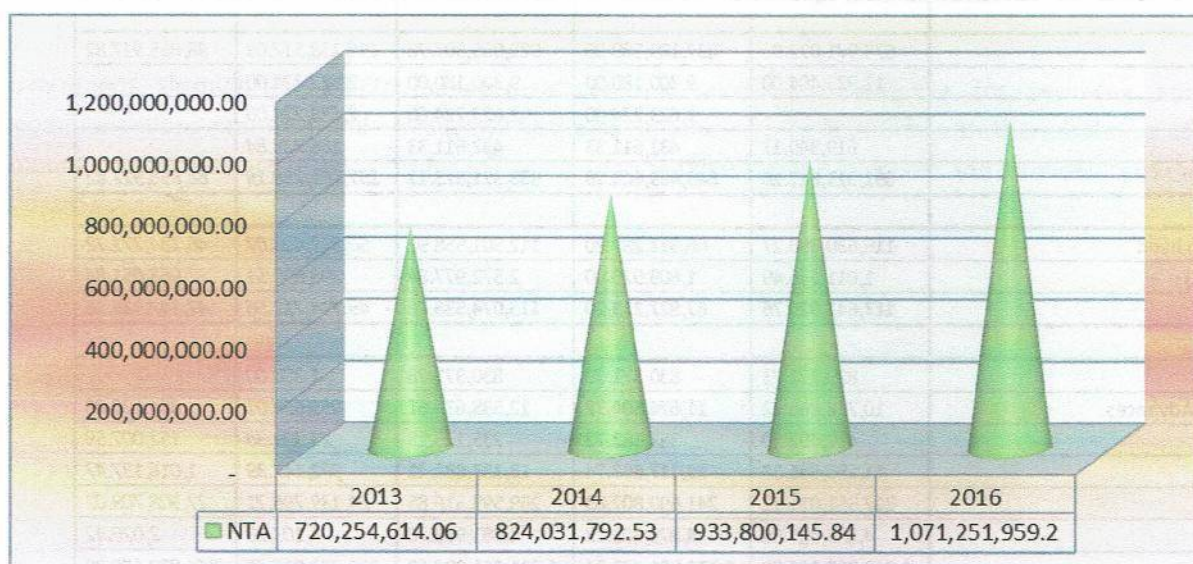
1.2 GOK Net Total Assets (NTA)

The analysis (table/graph) below reveals the balances of funds which represent the Realised Net Total Assets for the GOK as at December 31st 2016.

Table 1.1 B: GOK Net Total Assets.

Description	FY 2013	FY 2014	FY 2015	FY 2016	2015 inc/(dec)	2016 inc/(dec)
Consolidated Fund	39,461,269.92	107,445,128.42	52,529,141.11	87,417,196.67	- 54,915,987.31	34,888,055.56
Development Fund	11,392,047.36	21,238,265.20	25,931,831.54	39,047,878.43	4,693,566.34	13,116,046.89
RERF	663,530,316.58	689,964,296.93	837,109,589.96	925,965,507.78	147,145,293.03	88,855,917.82
Special Funds (Land Equity & Stabex & Other Funds)	5,870,980.20	5,384,101.98	18,229,583.23	18,821,376.39	12,845,481.25	591,793.16
Total	720,254,614.06	824,031,792.53	933,800,145.84	1,071,251,959.27	109,768,353.31	137,451,813.43

Figure 1 A: Comparative Graph for year's ended 2013 – 2016 NTA.



The above table depicts an increase in the net worth of Government as presented in the annual accounts 2016. However, it is important to note there are substantial anomalies noted in the following Statements which would place doubt on the genuineness of the figures as shown above.

Because of the lack of reconciliation until this year, 2016, we are still not in a position to provide audit figures, as was suggested by MFED management that would be taken from 2016.

Despite the above it should be noted that the revenue collection kept increasing as was in previous years and this was in line with the continued inflow of fishing license obtained from overseas fishing vessels fishing within our Kiribati EEZ.

Management response:

Referring to second last paragraph above, management sincere asks for specification and elaboration on the type of the reconciliation that audit mean or need on this area.

Bank reconciliation is normally done on a daily basis after the close of each Month (January to December). Finalization and reporting of reconciliation is not performed at end of the Month, but normally done at the end of the year.

2) STATEMENT 2: GOVERNMENT RECURRENT (CONSOLIDATED FUND) NET BALANCE – FY 2016**2.1 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 CAP 79, the Public Finance [Control and Audit] Ordinance, the aim of which is to provide finance for the Recurrent and Development Budgets after Parliament has approved the expenditure level of the public service. Section 40 (1) (ii) of CAP 79 refers to the statement of receipts and payments which constitute a Consolidated Fund. The balance shown at the end of the year depicts the health of the cash available and is derived at by adding the balance carried forward from the previous year with cash received and to deduct expenditure incurred during the year.

2.2 Balance of the Fund as at 31/12/2016**Table 2.1 A: Balance of Consolidated Fund for year 2014 – 2016.**

Description (Title)	FY 2014	FY 2015	FY 2016
Balance brought forward	39,460,859.18	107,445,128.42	52,529,141.11
Add:			
Total Revenue collected	198,239,057.09	253,315,089.80	209,258,754.56
Sub total	237,699,916.27	360,760,218.22	261,787,895.67
Less:			
Total Expenditure incurred	- 130,254,787.85	- 308,231,077.11	- 174,370,699.00
Consolidated balance at end of year	\$ 107,445,128.42	\$ 52,529,141.11	\$ 87,417,196.67

(Source: GOK Annual Account 2015 & 2016)

As reflected above the closing balance of the consolidated fund for this financial year 2016 of **\$87m** was way up by over **\$35m** or **40%** over that reported as the closing balance in 2015. However, the increase noted of **\$35m** was predominantly caused by the reduction in the gov't expenditure level from \$308m (2015) to \$174m (2016) which has resulted in the decrease in value of **\$133m**.

3) THE QUALIFICATIONS STATED ABOVE WERE MAINLY CAUSED FROM THE FOLLOWING STATEMENTS AS FOLLOW:

3.1) Statement II: Major Recurrent Revenue 2016

Findings and Analysis:

3.1.1 Estimate Budget Revenue against Actual Revenue for year ending 2015-2016

Table 3.1A: Comparative Table Estimate against Actual (2015-2016)

REVENUE	FY 2015		FY 2016		2015 Variance	2016 Variance
Title	Estimate	Actual	Estimate	Actual	Act. Vs Est.	Act.Vs. Est
Fishing license Revenue	75,000,000.00	197,754,162.56	100,000,000.00	143,295,455.00	122,754,162.56	43,295,455.00
Import duty	-	-	-	-	-	-
Personal Income Tax	7,300,000.00	6,794,496.79	7,000,000.00	7,900,307.00	505,503.21	900,307.00
Company taxation	5,600,000.00	7,461,396.18	7,600,000.00	7,842,516.00	1,861,396.18	242,516.00
Dividends	1,200,000.00	1,262,466.68	1,280,000.00	1,357,756.00	62,466.68	77,756.00
Hotel tax	-	-	-	-	-	-
Excise tax	5,500,000.00	6,173,438.70	6,100,000.00	7,366,933.00	673,438.70	1,266,933.00
VAT	13,200,000.00	14,548,404.47	12,200,000.00	15,258,746.00	1,348,404.47	3,058,746.00
Nasda (Jaxa Air Service)	860,234.00	1,071,092.47	1,058,244.00	1,010,595.00	210,858.47	47,649.00
Nasda (Downrange)	646,967.00	646,877.03	646,877.00	679,210.00	89.97	32,333.00
Open ship registration fee	680,000.00	710,816.75	725,000.00	489,327.00	30,816.75	235,673.00
Interest on Consolidated Fund	-	88,493.69	-	136,643.00	88,493.69	136,643.00
Fish transshipment fees	500,000.00	9,225,168.24	1,407,000.00	15,551,533.00	8,725,168.24	14,144,533.00
RERF	-	-	-	-	-	-
Sub Total	110,487,201.00	245,736,813.56	138,017,121.00	200,889,021.00	135,249,612.56	62,871,900.00
Ministry Revenue (including Budget Support)	2,770,275.00	7,578,276.24	2,448,210.00	8,369,733.00	4,808,001.24	5,921,523.00
Total	113,257,476.00	253,315,089.80	140,465,331.00	209,258,754.00	140,057,613.80	68,793,423.00

(Source: 2015 & 2016 Annual Account, MFED)

In referring to the above table, it is apparent that the actual revenue collected in 2016 of \$209m was below the amount that was collected in 2015 of \$253m thus incurring a shortfall in actual revenue collected by over \$44m. However, as was the case in previous years the fishing license (\$143m) was the only major revenue item that always boosts up the government revenue over the fiscal years. As stated in the 2016 annual account the fishing license still fared well over the years. However, due to the vulnerability of this revenue, as it could easily decline in later years, there is need to be cause and regularly exercise prudent fiscal policy in order to cover up for the shortfall or find other means to maintain the level of revenue.

Further, there were two major revenue outputs that reported deficits namely NASDA (air service) and Open ship registration license with their deficits of \$47k and \$236k respectively. Therefore, the ministry concerned shall ensure to give more realistic budget estimates so as to meet revenue targets at year end.

3.1.2 Shortfall of Revenues by Ministries for 2016**Findings and Analysis:****Table 3.1B: Value of Revenue shortfalls by Ministries for 2016**

Ministry Name	Revenue Revised Budget	Actual Revenue	Discrepancy
MELAD	188,500.00	183,238.97	- 5,261.03
OAG	750.00	548.50	- 201.50
MHMS	107,470.00	70,909.00	- 36,561.00
MOE	267,600.00	213,352.25	- 54,247.75
MICTTD	2,829,521.00	2,753,649.19	- 75,871.81
MPWU	41,680.00	30,965.43	- 10,714.57
MLPID	654,150.00	577,413.97	- 76,736.03
OPL	2,000.00	651.75	- 1,348.25
TOTAL	4,091,671.00	3,830,729.06	- 260,941.94

(Source: Annual Account 2016)

In 2016, there were eight (8) Ministries out of the total population of twenty-two (22) that had failed to meet their revenue targets hence when adding up their deficits the amount came up to around **\$261k**, an amount of which, however, was below the deficit reported in 2015 of **\$582k**. It was further noted that there were five (5) same Ministries (italic ones) listed above that did not meet their targets in 2015 thus indicated the failure by management in exerting efforts so to meet their revenue targets as anticipated. The revenue deficits reported above could have a significant effect on the RERF had there not been excessive collections achieved in this financial year, 2016.

It is therefore very important for all revenue collectors to meet or exceed their targets they already had set in the budget so as not to disturb the RERF or other investments been set aside for future development and any excesses could contribute to any reserves been set aside by Government.

3.2) STATEMENT II: EXPENDITURE**Findings and Analysis:****3.2.1 Summary expenditure table by Ministries for years ended 2014 up to 2016.**

As stipulated under Section 40 (1) (IV) of Cap 79, the Accountant General shall provide and submit a comparative statement of actual an estimated expenditure by subheads for each fiscal year end. Demonstrated below is the Government Expenditure against Budget incurred throughout the years of 2014 up to 2016.

Table 3.2A: Summary of expenditure by Ministries for year 2014 up to 2016

EXPENDITURE		FY 2014		FY 2015		FY 2016		2015 Variance	2016 Variance
Code	Title	Estimate (Rev)	Actual Exp	Estimate (Rev)	Actual Exp	Estimate (Rev)	Actual Exp	Under/(Over)	Under/(Over)
E02	LCDF	9,202,983	9,202,983	23,150,425	23,150,424	36,333,050.00	36,333,050.00	1	-
E36	OPL	-	-	326,502	403,843	458,035.00	443,184.89	77,341	14,850.11
E09	OB	1,493,632	1,700,326	1,708,761	1,797,285	1,989,429.00	1,972,140.48	88,524	17,288.52
E10	PSO	600,987	666,702	602,290	637,668	727,667.00	724,453.08	35,378	3,213.92
E11	JUDICIARY	1,921,899	1,887,620	1,650,030	1,654,347	1,766,033.00	1,833,691.68	4,317	67,658.68
E12	KPPS	7,116,854	7,136,000	7,262,784	7,329,687	7,736,542.00	7,890,271.15	66,903	153,729.15
E13	PSC	227,901	238,608	241,818	256,698	249,123.00	242,925.25	14,880	6,197.75
E14	MFAI	2,132,266	2,570,157	2,178,571	2,745,375	2,301,878.00	2,332,288.28	566,804	30,410.28
E15	MIA	2,300,998	2,349,336	2,229,210	2,208,340	2,422,135.00	2,407,475.59	20,870	14,659.41
E16	MELAD	2,591,743	2,738,280	2,999,994	2,999,705	3,243,609.00	3,259,538.29	289	15,929.29
E17	MM	2,864,380	2,977,971	3,066,410	2,809,029	3,419,042.00	3,340,484.96	257,381	78,557.04
E18	MCIC	1,279,920	1,276,641	1,480,721	1,379,473	1,659,281.00	1,563,965.66	101,248	95,315.34
E19	KNAO	684,961	680,432	695,236	661,987	753,883.00	737,595.75	33,249	16,287.25
E20	OAG	665,557	665,934	689,188	708,142	745,243.00	740,876.41	18,954	4,366.59
E21	MFMRD	2,156,517	1,940,188	2,279,744	2,020,278	2,684,603.00	2,365,325.40	259,466	319,277.60
E22	MOH	15,423,530	16,376,246	15,522,764	17,792,976	21,477,205.00	22,047,213.91	2,270,212	570,008.91
E23	MOE	19,829,311	19,645,065	20,152,235	19,834,251	22,307,956.00	21,770,085.61	317,984	537,870.39
E24	MCTTD	2,582,449	2,581,147	2,677,655	2,666,059	3,149,294.00	3,154,452.31	11,596	5,158.31
E25	MFED	2,851,835	2,805,515	6,438,994	5,864,200	3,199,805.00	3,261,516.43	574,794	61,711.43
E26	MWYSA	1,316,790	1,294,219	1,524,060	1,531,335	1,709,198.00	1,676,533.54	7,275	32,664.46
E27	MPWU	2,350,738	2,273,917	2,386,335	2,390,739	2,776,563.00	2,779,871.37	4,404	3,308.37
E28	MLHRD	3,564,240	3,702,884	3,684,455	3,684,938	4,665,254.00	4,561,746.06	483	103,507.94
E29	MLPID	2,701,008	2,684,460	3,175,031	2,828,832	3,480,378.00	3,411,734.46	346,199	68,643.54
E30	DEBT SERVICING	9,659,975	10,087,262	667,800	1,248,999	1,149,693.00	1,762,506.44	581,199	612,813.44
E31	OTHER GOVT EXPENSES	26,615,412	22,772,895	29,417,304	24,626,469	46,667,689.00	43,757,776.34	4,790,835	2,909,912.66
	TOTAL excluding contri. to RERF	122,135,886	120,254,788	136,208,317	133,231,079	177,072,588.00	174,370,703.34	2,977,238	2,701,884.66
E03	CONTRIBUTION TO RERF	-	10,000,000	-	175,000,000	-	-	-175,000,000	-
	TOTAL including contri. to RERF	122,135,886	130,254,788	136,208,317	308,231,079	177,072,588.00	174,370,703.34	-172,022,762	2,701,884.66

(Source: Extracted from 2015 & 2016 Annual Account)

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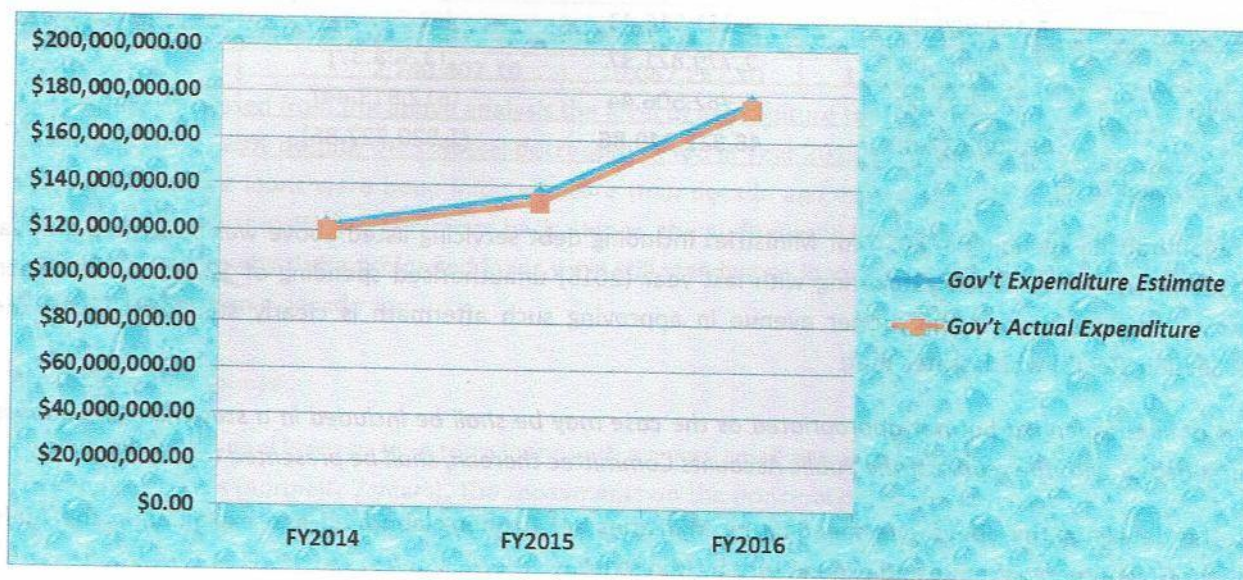
3.2.2 Comparative table for Gov't expenditure against actual for years of 2014 - 2016

Table 3.2B: Comparative table for Gov't Expenditure against actual (2014-2016)

Year	Gov't Expenditure Estimate	Gov't Actual Expenditure	(Over)/Under
2014	\$122,135,886.00	\$120,254,788.00	\$1,881,098.00
2015	\$136,208,317.00	\$133,231,079.00	\$2,977,238.00
2016	\$177,072,588.00	\$174,370,703.34	\$2,701,884.66

3.2.3 Comparative expenditure graph for years ended 2014 up to 2016

Figure 3.2A: Comparative expenditure graph for years ended 2014 up to 2016



As clearly depicted in the above table and graph the expenditure level over the three years constantly increased to meet the increase in level of spending. It is pleasing to note with such increases there was net savings throughout the years. In 2016 the net saving was in the vicinity \$2.7m.

3.2.4 Un-authorised spending by Ministries for year 2016**Table 3.2C: Overspending by Ministries as reported in 2016 account.**

OVERSPENT BY MINISTRIES 2016			
Ministry Name	Revised Budget	Actual Expenditure	Overspent
JUDICIARY	1,766,033.00	1,833,691.68	(67,658.68)
KPPS	7,736,542.00	7,890,271.15	(153,729.15)
MFAI	2,301,878.00	2,332,288.28	(30,410.28)
MELAD	3,243,609.00	3,259,538.29	(15,929.29)
MHMS	21,477,205.00	22,047,213.91	(570,008.91)
MICTTD	3,149,294.00	3,154,452.31	(5,158.31)
MFED	3,199,805.00	3,261,516.43	(61,711.43)
MPWU	2,776,563.00	2,779,871.37	(3,308.37)
DEBT SERVICING	1,149,693.00	1,762,506.44	(612,813.44)
TOTAL	46,800,622.00	48,321,349.86	(1,520,727.86)

(Source: Annual Account 2016)

The level of unauthorised spending in 2016 for Ministries including debt servicing listed above was \$1.52m, a gradual decrease of \$2.2m was noted when comparing with last year (2015) unauthorised spending of \$3.7m. As had been reiterated in my previous reports the proper avenue in approving such aftermath is clearly stipulated under the Constitution, Section 109 (5) which states that;

"... the excess or sum expended but not appropriated as the case may be shall be included in a statement of heads in excess which, together with the report of the Public Accounts Committee thereon, shall be presented to the Maneaba".

Additionally, the details of the above overspending by Ministries are further elaborated and explained in the Audit Report Part 1 for Government revenue and expenditure by Ministries.

Management response:

According to Financial Regulation it will be noted that it is the duty of every accounting officer to watch over expenditure charged to heads under his/her control (FR 8:161)

There are steps accounting officers must either take when anticipating the insufficient budget for the service of the full year such as

1. Application for virement or
2. Application for supplementary provision.

The spending officer will be personally and be pecuniary responsible for expenditure he/she may incur in excess to the sum allocated to him/her.

Based on the above provided clauses from FR, Management would recommend that the Accounting officers or secretaries for overspent ministries are the rightful persons to provide the explanation on unauthorised spending they made throughout the year 2016.

3.2.5 Summary of Debt Servicing for year ended 2014 - 2016**Table 3.2D: Summary of Debt Servicing Actual Expenditure for year ended 2014 - 2016**

Title	2013	2014	2015	2016
EIB loan	309,282.15	149,285.07	-	-
ADB loan 281	14,337.55	14,947.08	40,219.15	34,052.99
ADB loan 724	35,661.37	39,431.03	41,123.90	41,348.59
ADB loan 786	60,773.21	43,148.61	46,011.03	135,161.18
ADB loan 922	54,553.95	58,576.07	62,956.32	30,418.61
ADB loan 1039	47,586.75	49,515.75	36,059.29	33,826.30
SAPHE Projects 1648	380,578.76	382,886.69	418,131.27	421,985.54
ADB loan 2718	-	-	8,403.08	59,459.25
Other Financing	1,837,633.36	9,349,471.80	596,094.70	1,006,253.98
Total	2,740,407.10	10,087,262.10	1,248,998.74	1,762,506.44

As could be witnessed from the above analysis the level of expenditure for Debt Servicing in 2016 had steadily increased by over \$513k or 29% despite the colossal decrease noted in year 2015 of \$8.8m (2014 \$10m – 2015 \$1.2m). Further, most of the above loans were been initiated more than decade ago except for ADB loan 2718 of road rehabilitation project that was just instigated few years back. Hence, the audit would be pleased if management provides reasonable justifications as to why these prolonged loans were still standing as loans in the Public Accounts though such have been instigated more than a decade ago.

Management response:

These are concessional loans or long-term loans with a very small annual interest rate, e.g 1% or 1.5% on the loans and have grace periods (normally 7 years). The repayments on the principal of the loans start after the 7 year grace period is lapsed. For example, the ADB loan no. 2795 approved in 2012, the repayment will start around 2020 after completing this 7 years grace period. This is one way of helping ADB's poorest member countries in reducing poverty. Compared to Non Concessional loans like what ANZ did and other commercial banks where they offer loans with very high interest rates e.g 12.5% or more annually and to be repaid over a short period of time e.g 4 years.

3.2.6 Debt servicing actual expenditure against estimate for year 2016**Table 3.2E: Actual expenditure against estimate for Debt Servicing - 2016**

Title	Budget	Actual	(Over)/Under
EIB Loan	-	-	-
ADB loan 281	17,993.00	34,052.99	(16,059.99)
ADB loan 724	43,220.00	41,348.59	1,871.41
ADB loan 786	47,560.00	135,161.18	(87,601.18)
ADB loan 922	65,600.00	30,418.61	35,181.39
ADB loan 1039	58,240.00	33,826.30	24,413.70
ADB SAPHE 1648	432,950.00	421,985.54	10,964.46
ADB loan 2718	8,740.00	59,459.25	(50,719.25)
ADB loan 2795	5,390.00	-	5,390.00
Other Financing	470,000.00	1,006,253.98	(536,253.98)
Total	1,149,693.00	1,762,506.44	(612,813.44)

As disclosed in the table above, the bulk of the overspending reported in 2016 of over \$612k was mainly caused by the following accounts:

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- i) ADB loan 281 with an overspent of over \$16k
- ii) ADB loan 786 with the amount of \$87k
- iii) ADB loan 2718 of an overspent valued at \$50k
- iv) Other Financing with the amount of \$536k

It was further noted that only one account (i.e. ADB loan 2795) the estimate of which was never been utilised and the value involved was \$5k. Therefore, an explanation was required on the overspent including the non-utilised of budget for ADB loan account 2795 accordingly.

Management response:

Since these are statutory expenditures, amount due for payment should be paid but to avoid the unauthorised payment or overspent we therefore recommend for the increase to future budgets.

3.2.7 Other Financing¹ accounts: 2016 \$1,006,253.98 (2015 \$604,497.78)

During the audit it was noted that the balance of the above account had dramatically increased to \$1.01m in 2016, an amount of which almost doubled the actual balances reported in 2015 of over \$604k, meaning the value of other financing was further increased by over 40% significantly. It was further noted that other financing account was noted twice as the major contributor to the overspent reported for debt servicing amounted to \$532k (2015) and \$536k (2016) respectively. Hence management responses are also requested herewith concerning the above incident noted.

Management response:

Other financing breakdown table 2016

Allocation	Details	Budget	Actuals	balance
E30010000357	O/S JPY Comm & O/Draft Interest	70,000.00	-	70,000.00
E30010000370	Bank charges	200,000.00	507,562.65	-307,562.65
E30010000371	Civil suites	-	151,674.68	-151,674.68
E30010000372	ICDF loan No.KIR0-01-1503 Int.	200,000.00	246,878.81	-46,878.81
E30010000374	Census	-	100,137.84	-100,137.84
		470,000.00	1,006,253.98	- 536,253.98

1. Bank charges in which they are not budgeted for in this year's estimates such as loan approval fee from ANZ Bank of Kiribati for letter of credit (LC) and Court fee (Air Kiribati court case for cost of aircraft gone missing) that carried out in New York, USA, NY bank charges,

2. Court cases payment

Census payment for 2015 up to 2016. (UNFP & DFAT withdrew their funding due to disagreement between them and Statistics board directors on the methods to be used hence the purpose of the GOK involvement

¹ Other financing was mainly derived from bank charges, JPY commission, civil suites, ICDF loan & census

3.2.8 Summary of Other Government Expenditure for year ended 2014- 2016**Table 3.2F: Summary table of other gov't spending (2014-2016)**

Year	Budget	Actual	Balance
2014	26,615,412.00	22,772,895.38	3,842,516.62
2015	29,417,304.00	24,626,469.00	4,790,835.00
2016	46,667,689.00	43,757,776.34	2,909,912.66

3.2.9 Comparative graph of Other Gov't Expenditure against Budget (2014-2016)

Figure 3.2B: Comparative line graph of actual expenditure against budget (2014 – 2016)



It has come to the audit attention that the revised budget for other gov't expenditure had reached the amount of **\$46.6m** in the fiscal year of 2016 from its original budget of **\$41m** thus incurring a variance of over **\$5.7m**. In this case the variance noted of **\$5.7m** would be considered as the amount being approved for the supplementary of other gov't expenditure in 2016. However, as indicated above the actual expenditure of **\$43.7m** was still below the revised budget of **\$46.6m** which has resulted in reporting the net savings significantly of over **\$2.9m**. The audit is of the belief that the supplementary made in 2016 of **\$5.7m** was deemed too excessive as could be evidenced by reporting the net saving of over **\$2.9m** at year end. Therefore, explanations from management should be provided as to why these supplementary were not been fully utilised as intended for when preparing the supplementary for above outputs in the first place.

Management response:

The concerned ministries will provide explanation on this query.

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3.2.10 Variances existed between original budget and supplementary against revised budget of \$709k

		A	B			C (A-B)	D	E	F (D-E)	G (C-D)
EXPENDITURE			Supplementary Approved for FY 2016					FY 2016		
Code	Ministry/Title	Original Budget	Supplementary No. 1	Supplementary No. 2	Supplementary No. 3	Total Orig budget plus supplementaries	Revised Budget	Total Actual Exp	(Over)/Under	Total Orig Budget plus Supp vs Revised Budget
E02	LCDF	16,472,723.00	637,085.00	1,556,896.00	17,153,431.00	35,820,135.00	36,333,050.00	36,333,050.00	-	512,915.00
E03	Contribution to RERF	-	-	-	-	-	-	-	-	-
E09	OB	1,989,427.00	-	-	-	1,989,427.00	1,989,429.00	1,972,140.48	17,288.52	2.00
E10	PSO	666,168.00	-	-	-	666,168.00	727,667.00	724,453.08	3,213.92	61,499.00
E11	JUDICIARY	1,766,032.00	-	-	-	1,766,032.00	1,766,033.00	1,833,691.68	67,658.68	1.00
E12	KPPS	7,736,542.00	-	-	-	7,736,542.00	7,736,542.00	7,890,271.15	153,729.15	-
E13	PSC	249,123.00	-	-	-	249,123.00	249,123.00	242,925.25	6,197.75	-
E14	MFAI	2,301,877.00	-	-	-	2,301,877.00	2,301,878.00	2,332,288.28	30,410.28	1.00
E15	MIA	2,422,132.00	-	-	-	2,422,132.00	2,422,135.00	2,407,475.59	14,659.41	3.00
E16	MELAD	3,243,608.00	-	-	-	3,243,608.00	3,243,609.00	3,259,538.29	15,929.29	1.00
E17	MW	3,142,818.00	-	-	276,223.00	3,419,041.00	3,419,042.00	3,340,484.96	78,557.04	1.00
E18	MCIC	1,659,277.00	-	-	-	1,659,277.00	1,659,281.00	1,563,965.66	95,315.34	4.00
E19	KNAO	744,083.00	-	-	10,000.00	754,083.00	753,883.00	737,595.75	16,287.25	200.00
E20	OAG	745,245.00	-	-	-	745,245.00	745,243.00	740,876.41	4,366.59	2.00
E21	MFMRD	2,684,604.00	-	-	-	2,684,604.00	2,684,603.00	2,365,325.40	319,277.60	1.00
E22	MHMS	21,166,729.00	-	-	310,475.00	21,477,204.00	21,477,205.00	22,047,213.91	570,008.91	1.00
E23	MOE	22,310,755.00	-	-	-	22,310,755.00	22,307,956.00	21,770,085.61	537,870.39	2,799.00
E24	MCTD	3,149,293.00	-	-	-	3,149,293.00	3,149,294.00	3,154,452.31	5,158.31	1.00
E25	MFED	3,199,804.00	-	-	-	3,199,804.00	3,199,805.00	3,261,516.43	61,711.43	1.00
E26	MWVSA	1,716,300.00	-	-	-	1,716,300.00	1,709,198.00	1,676,533.54	32,664.46	7,102.00
E27	MPWU	2,671,584.00	-	-	-	2,671,584.00	2,776,563.00	2,779,871.37	3,308.37	104,979.00
E28	MLHRD	4,665,252.00	-	-	-	4,665,252.00	4,665,254.00	4,561,746.06	103,507.94	2.00
E29	MLPID	3,630,376.00	-	-	-	3,630,376.00	3,480,378.00	3,411,734.46	68,643.54	149,998.00
E30	DEBT SERVICING	1,149,693.00	-	-	-	1,149,693.00	1,149,693.00	1,762,506.44	612,813.44	-
E31	SUBSIDIES, GRANTS & OTHER COMMITMENTS (GOV'T)	40,957,756.00	162,000.00	868,400.00	5,911,523.00	47,899,679.00	46,667,689.00	43,757,776.34	2,909,912.66	1,231,990.00
	OPL	454,434.00	-	-	-	454,434.00	458,035.00	443,184.89	14,850.11	3,601.00
	TOTAL	150,895,635.00	799,085.00	2,425,296.00	23,661,652.00	177,781,668.00	177,072,588.00	174,370,703.34	2,701,884.66	709,080.00

Further the audit noted with the utmost concern that the total original budget and supplementary budgets of **\$177,781,668 (Original budget \$150,895,635 + Supplementary budget \$26,886,033)** does not match with the total revised budget as indicated in the annual account 2016 by **\$177,072,588** thus incurring the variance of **\$709,080**. The significant variance noted of **\$709,080** indicates the failure of those who involved in preparing and constructing the Kiribati Government Annual Account 2016 in which require further explanations from MFED accordingly.

3.2.11 Overstatement of KPF in the annual accounts

It was noted when checking the KPF against the total Salary, Temporary and Wages that the total amount of \$2,973,156.24 was overstated by \$46,627.74. This was derived as follows:

Salary	- 36,667,584
Temporary assistance	- 2,249,071
Wages	- 103,725
Total	39,020,380
KPF @ 7.5%	2,926,528.50
Less KPF per annual account-	<u>2,973,156.24</u>
Overpayment	\$46,627.74

As alluded to during the Exit meeting there were payments made by Salary section of MFED that appear omitted from the GL and there had not been any reconciliation made between MFED and KPF on the KPF payments.

Recommendation:

Management should ensure it reconciles its payments with KPF with effect from 2018 and where anomalies are noted, to check back years' payments and to make arrangement for offsets in their future KPF payments.

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3.3) STATEMENT V: SPECIAL FUNDS

Findings and Analysis:

Section 40 (v) of CAP 79 requires a full financial position on the statement of Special Funds' balances, by annual and aggregate receipts and payments.

Table 3.3A: Special Funds as at 31st December 2016.

GL Code	Title	FY 2014	FY 2015	FY 2016
Stabex				
F007-62A	Stabex Special Fund	- 59,351.55	- 59,351.55	- 59,351.55
F007-63A	No. 6 Stabex Fund	408,215.63	- 439,968.06	- 439,968.06
F007-64A	Local Stabex Fund	3,066,869.66	1,897,740.71	1,495,755.44
	<i>Sub Total</i>	\$ 3,415,733.74	1,398,421.10	996,435.83
Other Funds				
F007-10A	Coinage Security Special Fund	- 30,809.29	-	-
F007-30A	Kaoki Maange Special Fund	- 299,626.14	- 317,413.65	- 329,305.35
F007-61A	Import Levy Fund	- 4,682,030.50	- 5,094,574.22	- 6,126,682.62
F007-66A	Leper Trust Fund	- 8,961.27	- 8,961.27	- 8,961.27
F007-67A	Dai Nippon Causeway Fund	- 2,581,247.91	- 2,292,113.82	- 2,105,897.63
F007-68A	Esrow Fund	- 66,536.76	- 66,536.76	- 66,536.76
F007-69A	Civil Aviation Special Fund	- 642,035.74	- 350,689.89	- 902,541.01
F007-70A	Plant & Vehicles Unit Fund	- 488,588.11	- 504,490.72	- 199,974.40
F007-72A	Highway Authority Fund	-	-	- 3,349.00
F0096-3998A	Recurrent Dev Clearing A/C	-	-	918,660.32
	<i>Sub Total</i>	- 8,799,835.72	- 8,634,780.33	- 8,824,587.72
Land Equity				
F007-71A	Land Equity	-	- 10,993,224.00	- 10,993,224.50
	Grand Total	- 5,384,101.98	- 18,229,583.23	- 19,817,812.22

(Source: Annual account 2016 page 25)

Appended below were some of the audit observations detected while conducting this year audit to which we require further explanations from concerned officers and these are as follows:

- The balance of the Fund as at 31/12/16 had significantly increased by \$1.6m when compared with the drastic increase of over \$12.8m reported in fiscal year 2015. As noted, the increases noted of over \$1.6m were primarily caused by the inclusion of the newly accounts of i) highway authority (\$3,349), ii) Recurrent Dev Clearing A/C \$918,660.32, iii) Retained Income B/F (\$25,931,831.54) and lastly iv) Land Equity of (\$10m).
- As reflected above, there were two debit figures appearing under **Local Stabex fund (F007-64A)** and **Recurrent Dev Clearing A/C (F0096-98A)** in the sum of \$1.49m and \$918k respectively. As noted in my previous reports that the debit figures appearing amongst the investments balances indicates the overdraft of such investment therefore clarifications from concerned management are also invited herewith. Any charges attached there to should be provided.

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- c) The total balance for Other Funds disclosed in the annual account (page 25 refers) amounted to **\$8,821,238.72** was incorrect. The correct figure for this sub accounts should be **\$8,824,587.72**. Apparently the discrepancy noted of **\$3,349 (\$8,824,587.72 less \$8,821,238.72)** for Highway authority was mistakenly included in the annual account as **\$3,349.00** instead of **\$3,349.00** hence the outcome of which was to understated the actual balance of the special fund at the year end.
- d) Further, the inclusive of in-active and prolong accounts (Stabex, leper trust & escrow), as was the case in previous years, were still detected when performing this year audit in which could have resulted in alteration the balance of the special fund. These funds should not be included under the special fund statement as these were no longer appropriate as special fund accounts. These had erroneously overstated the net worth of government, pervasive to the entire annual account and therefore would disclaim the annual accounts.

Management response:

- a) Highway authority is a special fund which is newly established in during this. The other three are not, but since their code begin with F, hence the reason to incorporate such as part of special fund.
- b) Leper trust is written off this year 2017, the same goes to Stabex and escrow.

3.3.1 Recurrent Dev Clearing account code - \$918,660.32

During the review it is noted that almost all transactions appearing under the above account were direct Debits and Credits made to the Gov't No.1 account as well as Gov't No.4 account. As informed, the said account was being used by MFED to record the unidentified direct Credits and Debits in which were wrongly allocated under the Special Funds. In this case, MFED should provide clarifications as to why the above account was still incorporated as one of **the special funds** as indicated in the annual account 2016.

Management response:

This code can be defined as Recurrent Development Clearing Account Code which is also recalled as to record an unidentified or un-allocated transactions which have yet direct debit and credit to the Government Account No. 1 (Consolidated fund) as well as Account No. 4 (Project fund). In addition, note that this direct debit and credit involves transfer, reimbursement, payment and others of Government fund through No. 4 Account. Such code however has been created for unidentified transactions with the intention that they have to be adjusted and reconciled very shortly.

Highlighted here that the word 'Unidentified' means not that wrongly posted or wrongly allocated but obviously it means that transactions need to be disclosed in time even no proper provision available in the system.

It was still incorporated as one of the Special fund while you are referring to its nature of such code. For example:

1. 'F009' stands for a Special fund which it should be incorporated as one of them.
2. The definition of revolving fund as a Special fund, generating its Revenue with the possibility of meeting its own cost (Expenditure) afterward from its source. This Special fund (F0096003998A) however, its procedure is to reimburse from Account No. 4 (recorded as Revenue) and transfer to Account No. 1 (recorded as Expenditure) as an example of the Special fund – or definitely a Revolving fund.
3. Therefore, this time the appropriate amount of \$918,660.32 should be accounted now as one of the Special fund because of the above clarifications, but more importantly such code has disclosed unidentified transactions for direct debits and credits without the gap.

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1. Way forward!

The Treasury department has created yet the code for direct debits and credits for your information which is 'N'. However, its purpose of setting up this new code is to accommodate unidentified transactions of the above.

3.3.2 Import levy Fund

The import levy fund balance as displayed in the annual account was increased from **\$5.09m** (2015) to **\$6.12m** (2016) meaning the difference of **\$1.03m** was the increase in value noted in 2016. As observed the increase in value noted of **\$1.03m** was ultimately derived from the actual receipt reported in 2016 of **\$3.73m** (GL report refers) which exceeded the amount reported as the actual receipt in 2015 of **\$3m**.

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3.4) STATEMENT VI: CASH AT BANK AND ON HAND AS AT 31/12/2016

Findings and Analysis:

3.4.1 Cash at Bank and On Hand Balance for years ending 2014 up to 2016

Provided below is the summary of the cash at bank and on hand balances for the last three consecutive years 2014 up to 2016 as follows:

Table 3.4A: Cash at bank & on hand for year 2014 – 2016

Accounts Title	GL Code	FY 2014	FY 2015	FY 2016	Inc/(Dec) 2016
No.1 Account (Operating Account)	M0030000001A	76,752,109	20,414,618	58,052,171	37,637,553
No.4 Account(Project)	M0030000004A	12,766,138	25,232,901	42,926,575	17,693,674
No.5 Account (Kiritimati)	M0030000005A	2,503,161	2,460,426	2,026,802	433,624
No. 6 Account (Stabex)	M0030000006A	179,442	127,918	6,816	121,102
Petty Cash	M0030000007A	-	-	-	-
Term Deposits with ANZ Bank (IBDs)	M0030000008A	23,000,000	16,540,000	7,540,000	9,000,000
KPF Clearing Account	M0030000010A	124,802	336,725	332,030	4,695
Sundry Creditor Clearing Account	M0030000013A	8,425	8,425	8,425	0
Kiribati High Commission (Fiji)	M0030000017A	1,244,573	1,724,742	2,054,608	329,866
Taipei Mission Bank Account	M0030000018A	11,186	16,996	29,598	12,602
New York Mission Bank Account	M0030000019A	29,471	87,075	48,711	38,364
Taipei Mission Petty Cash	M0030000020A	402	817	817	0
Kiribati High Com Petty Cash	M0030000022A	-	6,382	11,205	4,823
EPOS - Outer Island	M0030000023A	-	30,000	30,470	470
sub total 1		116,353,257	66,122,575	112,289,896	46,167,321
OTHER					
Sub-Accountants	(M0031s)	4,250	4,250	4,250	-
State Funds - Local Governments	(M0032s)	236,213	153,490	170,443	16,953
Cash with Agents	(M0034s)	36,971	36,971	36,971	-
Cash in transit (RBC)	(M0033)	-	-	2,572,978	2,572,978
sub total 2		277,433	194,711	2,784,641	2,589,930
Grand Total		\$ 116,630,690.27	\$ 66,317,286.00	\$ 115,074,537.20	\$ 48,757,251.20

(Source: Annual Account 2016)

As evidently shown above the cash at bank & on hand balances was fluctuated over the last three consecutive years significantly in the sum of \$116m (2014), \$66m (2015) and \$115m (2016) respectively. Further, in year 2016 the balance displayed of \$115m was above the balance disclosed for fiscal year 2015 of \$66m thus incurring an increase in value of over \$48.7m and such increases were mainly caused by the inclusion of the Cash in transit (RBC) as part of the cash at bank & on hand in 2016 as well as the increases in value of the Gov't No.1 account and No.4 account as indicated above. It was further noted that some irregularities were also been discovered when performing this year audit and these are provided and itemised in further details as follows:

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3.4.2 Gov't No. 1 Bank Account Status

The balance of the Gov't No.1 bank account in 2016 as indicated above was **\$58,052,170.56**, a gradual increase of over **\$37.6** was realized when comparison is made with last year balance of **\$20,414,618**. However, the requested bank audit certificate for each of all gov't bank accounts balances was still not provided to date, same case with last year, thus had prevented auditors from verifying and confirming the balances disclosed in the annual account for gov't bank accounts including the balances of the IBDs. Hence, reasonable comments are invited from management as to why the reliable information (bank audit certificate) from the ANZ bank was not made available upon audit request.

For future years it is recommended that management issued a letter of request to the ANZ Bank within the first week of January each year.

Management response:

Bank Audit Certificate is a third party confirmation on all Government bank account balances. In this case, the ANZ bank, as a banking institution for the Kiribati Government, is a third party that has to provide the aforementioned to KNAO upon request.

The Public Finance (Control and Audit) Ordinance and the Financial Regulation silent on this, hence the Treasury is not bound to undertake this activity. However, the MFED – Treasury has the bank statement as a primary source for verification on all Government bank accounts.

As you are aware, auditor on the other hand, may require confirmation on the above from a third party, hence International Standard on Auditing (ISA) 505, which deals with the auditor's use of external confirmation, stands as a guiding tool on this for auditors and not to us (accountants).

According to the aforementioned standard, it is the auditor who has to (i) determine the information to be confirmed or requested, (ii) select the appropriate confirming party, (iii) design the confirmation requests and (iv) send the request, including follow-up requests when applicable, to the confirming party.

Contrary, the ANZ bank procedure here will only release such information, if the letter is signed by authorize signatories, hence the reason for involvement of MFED through the Treasury Division as well as the usage of MFED letter head.

In light of the above, audit bank confirmation is therefore the responsibility of the Audit and not the management, but we can always assist if there are any difficulties in release of such from the ANZ if conveyed/requested to us.

3.4.2.1 Variance of \$2.47m between Annual Account & Bank Statement balance as at 31/12/16

The audit has used the bank statement balance as at 31/12/16 to perform its comparative analysis for the No.1 bank account due to the unavailability of the bank audit certificate. Conversely, after the comparative analysis made the variances of over **\$2.47m** was noted as the difference in value between the amount disclosed in the annual account 2016 of **\$58,052,170.56** and the balances reflected in the bank statement as at 31st Dec 2016 valued at **\$60,531,541.38**, re details shown below.

Annual Account vs Bank Statement 31/12/16	Amount
Annual Account 2016	\$ 58,052,170.56
Bank Statement as at 31/12/16	\$ 60,531,541.38
Variance	\$ 2,479,370.82

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Furthermore, the audit had realized that the balance disclosed in the annual account was the reconciled balance which has taken from the Bank Reconciliation Statement (refer bank rec 2016) meaning the variance of over **\$2.47m** was also included in the reconciliation process. However, as confirmed the balance appearing under the No.1 account of the annual account valued at **\$58,052,170.56** was incorrect as such balance was not tallied with the figure stated in the bank reconciliation statement as at 31/12/16 amounted to **\$58,053,072.40**, thus incurring the variance of **\$901.84** which require further clarifications from MFED management.

The fact that the Bank statement figure was higher than that shown in the annual account could mean there were deposits made but were not reflected in the GL.

Management response:

In reality, the bank statement and the cash book record cannot be matched, hence the purpose of bank reconciliation that will align the record (please refer bank reconciliation 2016 submitted along with Annual account, which shows that reconciled amount for the No.1 account). However, management agrees that there is a variance between the No.1 account as stated in the annual account and in the bank reconciliation report for this year in the amount of \$901.84.

After going through the General Ledger and bank reconciliation it was found out that the \$901.84 derived of the followings:

DATE	PERIOD	NUMBER	NUMBER	PAGE	LN	REFERENCE	DETAILS	DEBIT	CREDIT
12/31/2016	12-Dec	1275	959			batch360	Ruka Teweia Awira		58.25
12/31/2016	12-Dec	1275	957			batch546	Kaotiman Kauongo		400.00
12/31/2016	12-Dec	1275	958			batch547	Kabutaaba Amota		77.50
12/31/2016	12-Dec	1275	960			batch721	Biitee Binokatau		366.09
Total									901.84

The above should have not appear under the No.1 account as it related to salary advance, somehow it has appear there after the report was final and submitted.

We noted that this relate to corruption of the system as we found out that payments or deposited that have reconciled became unreconciled items in the recent GL again.

This will be considered as a take up balance for the 2016 that will be resolved in 2017.

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3.4.2.2 Errors detected in the Bank reconciliation statement as at 31/12/16

The audit had performed further testing on the figures reflected in the bank reconciliation and found the following anomalies as follows:

- As clearly reflected in the table below the bank reconciliation statement disclosed a nil or zero difference between the Bank Balance and the GL balance as at 31/12/16 however the audit calculation shows the difference of **\$179.84**.
- The bank balances as at 31/12/16 revealed in the bank rec statement of **\$60,532,263.38** was again differ if compared with the audit figure of **\$60,531,541.38** which has resulted in reporting the variance of **\$722.00** (refer table below)
- Also, the discrepancy of **901.84** was discovered between GL balance revealed under the Bank rec statement and the figure stated under the audit calculations (refer 3.4.2.1)
- In light of the above queries, it is therefore of paramount importance that reasonable explanations should be provided from concerned management to settle these audit queries accordingly.

Extracted from Finance Bank Rec statement 2016	Amount	Audit Calculations	Amount
Bank balances as at 31/12/16	\$ 60,532,263.38	Bank balance as per statement as at 31/12/16	\$ 60,531,541.38
ADD: Deposit not yet credited	\$ 2,845,574.40	ADD: Deposit not yet credited	\$ 2,845,574.40
	\$ 63,377,837.78		\$ 63,377,115.78
LESS: Unpresented cheques	\$ 5,324,765.38	LESS: Unpresented cheques	\$ 5,324,765.38
Bank balance	\$ 58,053,072.40	Bank balance	\$ 58,052,350.40
GL balance as at 31/12/16	\$ 58,053,072.40	GL report figure provided from Finance 31/12/16	\$ 58,052,170.56
Difference	\$ -	Difference	\$ 179.84

Management response:

As clearly stated in the 2016 bank reconciliation report, a variance of \$722.00 is between the Treasury (Cash book - GL) records against the ANZ (bank statement) record. This is a variance since 2011 which has not been resolved by the ANZ up to date. As clearly stated, there were out in the amount of \$706.65 for March and \$15.53 for April in 2011. It was further elaborated that the out of \$706.65 came from the closing and opening balances for 28/03/2011 and 29/03/2011 in the amount of -\$1,742,850.85 and -\$1,743,557.50 respectively. The out of \$15.53, additionally, came from the closing and opening balances for 18/04/2011 and 19/04/2011 in the amount of -\$5,465,242.99 and -\$5,465,258.34 respectively.

The above is off course a bank error, but since the system cannot cater for such to provide a clear picture, hence the bank balance as end of 2016 was corrected by adding back the \$722.00 thus the amount of \$60,532,263.38 (\$60,531,541.38 + \$722.00).

Management confirmed that the out between the bank reconciliation report and the annual account should be \$901.84 as depicted below:

Correction on calculation	Amount
Bank balances as at 31/12/16	60,532,263.38
Add: Deposit not yet credited	2,845,574.40
	63,377,837.78
Less: Unpresented Cheq	5,324,765.38
Bank Balance	58,053,072.40
GL Balances as at 31/12/16	58,052,170.56
Difference	901.84

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As conveyed in section 3.4.2.1, the above variance will be considered as a take up balance for the 2016, this will be resolved in 2017 financial year.

In light of this, the correct variance should be \$901.84 and not \$179.84 as per audit finding because of the reasons stated above. Thus management request if the out of \$179.84 and \$722 could be struck off.

3.4.2.3 Deposits not appeared in the Statement for 2016

The total accumulative balance of the gov't deposits that did not appear in the bank statement as indicated in the bank rec statement had now reached a significant amount of **\$2,845,574.40**. As could be witnessed when compared with the value of outstanding deposits reported in 2015 amounting to **\$1,655,446.21**, a rapid increase of over **\$1.2m** was realised as a result. Yet, as earlier mentioned in my audit reports that this was one of the audit major concerned because of the reasons stated below:

- i) If the outstanding deposits were in cheque forms the cheque bearers would still have their bank balances not affected and had of course been utilising the services of government free of charge and at the detriment of public funds.
- ii) If the outstanding deposits were in cash this means there was loss of funds and the culprits, if had not been detected, would have merrily siphoning out funds again at the detriment of public funds.
- iii) The revenue output codes in the annual account had been overstated by these un-deposited revenues and so was the annual accounts but did not increase the cash at the bank the result of which understated the cash at the bank and the net worth of the Government.
- iv) There was revenue foregone in the form of interest that would have been earned on those un-deposited revenues.
- v) The above have all affected the cash flow of government throughout the year and also prevented GoK from receiving additional revenue in the form of interest.

Due to the adverse effect it could have on the cash flow of Government management should come up with alternative ways, procedures and processes that will prevent this issue from occurring in future years.

Management response:

- Refer to the 2016 bank reconciliation submitted.
- Yes, it true that the bearer of the un-deposited cheque would not be debited his/her bank account.
- For your information, from my experience all cash deposits always appear on the bank statement one day later than the date of deposit and cheque deposits are always late maybe three days or a week. Sometime these cheque deposits will be returned to finance under the bounced cheques maybe because of insufficient balance on the account, the slight different on the signature on the cheque with what the Bank stored under signatories.
- HQJV no. 1359/16 is for the reimbursement of No.1 Account from the State Fund account from outer islands for the year 2016. This HQJV was raised in the year 2016 and the amount of \$1,379,258.71 do appear on the BS in the 26/05/2017.
- Has been categorised in the year since 2010 to 2016.
- Detail of undeposited cheques can be sighted in the 2016 Bank reconciliation.

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3.4.2.4 Value of un-presented cheques: 2016 \$5,324,765.38 (2015 \$4,730,197.10)

By looking at the Bank Reconciliation Report 2016 the value of un-presented cheques for fiscal year 2016 has escalated to \$5.32m, the amount of which was way up by over 11.2% or \$594k than the amount reported as the un-presented cheques in year 2015 of \$4,73m. From the audit perspective the above un-presented cheques would have an adverse impact especially on the Net worth of the Gov't as these payments were still pending as at the year-end thus resulted in inflating the Gov't net worth at the same time.

Management should review its current payment procedure so to avoid issuing cheques which would not be collected by payees before the end of the year.

The current practice also has impacts on the annual accounts as the expenditure incurred when payment vouchers were raised had inflated the specific output codes related to such expenditure but the cash at the bank was not reduced.

When claims were actually lodged in the following year the annual accounts would be reduced for the second time and thus would affect the closing balance at the end of the following year.

Management response:

Management agrees that the unrepresented cheques has increased by \$594k or 12.57% in comparison of unrepresented cheques reported in the 2015 financial report. If analysis is extended base on the 2016 bank reconciliation report, it could be noted by the audit that the bulk of the unrepresented cheques is in December 2016 in the sum of \$4.5 million, while the remaining unrepresented payment for 2015 financial year is only \$199k. Depicted below for verification and perusal.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Grand Total
2010	142.03	5,804.70	21,381.00	176.00	762.00	1,761.10	974.00	3,552.00		231.00	18,379.40	6,094.94	59,258.17
2012	21,105.00	7,063.83	251.40	681.90	804.25	405.60		3,146.10	60.00	315.00		1,481.25	35,314.33
2013		3,068.91	70.00	1,631.70	1,479.18	782.68	3,278.80	10,579.63	93,777.15	13,401.34	3,026.55	78,497.56	209,593.50
2014	1,866.50	4,597.20	1,654.07	4,033.25	78,028.25	50.00	3,300.00	2,728.67	30.00	1,468.30	205.53	5,815.70	103,827.47
2015	124,806.97	741.00	994.10	16,514.46	10,100.73	1,615.21	8,237.60	2,574.17	970.80	5,699.04	5,096.57	21,968.18	199,318.83
2016	9,426.29		23,070.28	6,593.48	7,163.95	2,222.30	21,679.04	33,286.37	1,502.79	35,223.24	35,283.65	4,542,903.53	4,710,354.92
Grand Total	157,346.79	21,275.64	47,420.85	29,680.79	98,338.36	6,836.89	37,469.44	55,866.94	96,340.74	56,337.92	61,991.70	4,656,761.16	5,325,667.22

Even though the remaining payment of 2015 (\$199k) is material as well as for prior years, management has manage to reduce the level of unrepresented cheques reported in the 2015 by \$4.1 million (or 87.16%). Prior years unrepresented cheques should be considered as stale cheques as the cheque is only valid for 6 months. However, these cheques remain unidentified and/or in the hands of the payee, thus the reason for reporting it as an unrepresented payment. Search and investigation of prior years cheque is an ongoing task but such will diminish over the year.

Despite this effort, the unrepresented cheques will remain increase due to current practice, where the Treasury will announce a cut off period for payment process to line ministries, this is normally 1 week before the end of December each year. This is adopted in order to allow the Ministry to expend its approved budget within the financial year so that next financial year budget is not affected.

This treatment has no effect to the annual account nor the budget in the following year and it will not impact the closed financial year twice as such was already accounted as an expenditure. The only effect of this practice is on cash flow, but this is at the advantage of the Government for cash outflow was not realized at end of 2016 instead cash at bank will be affected in 2017.

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3.4.3 Government No. 4 Bank Account

The balance of the No.4 bank account had kept increasing over the financial years significantly from \$12.76m (2014), \$25.23m (2015) and \$42.92m (2016) respectively. However, the audit had managed to identify the discrepancies of \$2,410,521.82 between the bank statement as at 31/12/16 amounting to \$45,337,096.67 and the annual account for the No.4 bank account of \$42,926,574.85. Further, the variance noted of \$2,410,521.82 represented the net off balance between the outstanding deposits and the un-presented cheques and this was already reconciled as per bank reconciliation report for the No.4 bank account 2016.

Management response:

Bank Audit Certificate is a third party confirmation on all Government bank account balances. In this case, the ANZ bank, as a banking institution for the Kiribati Government, is a third party that has to provide the aforementioned to KNAO upon request.

The Public Finance (Control and Audit) Ordinance and the Financial Regulation silent on this, hence the Treasury is not bound to undertake this activity. However, the MFED – Treasury has the bank statement as a primary source for verification on all Government bank accounts.

As you are aware, auditor on the other hand, may require confirmation on the above from a third party, hence International Standard on auditing (ISA) 505, which deals with the auditor's use of external confirmation, stands as a guiding tool on this.

According to the aforementioned standard, it is the auditors who has to (i) determine the information to be confirmed or requested, (ii) select the appropriate confirming party, (iii) design the confirmation requests and (iv) send the request, including follow-up requests when applicable, to the confirming party.

Contrary, the ANZ bank procedure here will only release such if the letter is signed by authorize signatories, hence the reason for involvement of MFED through the Treasury Division as well as the usage of MFED letter head.

In light of the above, audit bank confirmation is therefore the responsibility of the Audit and not the MFED, but we can always assist if there are any difficulties on release of such from the ANZ if conveyed/requested.

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3.4.3.1 Value of outstanding deposits as at 31/12/16 \$34,080.46 (2015: \$34,167)

The value of the outstanding deposits (deposit not on statement) reported in year 2016 was **\$34,080.46**. It was confirmed that when compared with last year amount (outstanding deposits) of \$34,167, the variance of **\$86.54** was noted as the decrease in value from year 2015 to 2016 respectively.

As could be viewed from the bank rec report 2016 the outstanding deposits reflected in the amount of **\$34,080.46** the bulk of which was related to previous years that were still reflected in reconciliation report as these had not settled yet to date and the details of such are provided in the table below. The main concerns of the audit are:

- i) Some of the long outstanding receipts may be time barred and would never be received
- ii) There would be revenue foregone for GoK in the form of interest on the outstanding deposits
- iii) The cash flow of the project could be affected particularly the project for which the receipt relates
- iv) The acquittal for the particular projects could be delayed due to the non-receipt of these deposits and thus could delay further disbursements and thus could affect the completion timeframe of the projects.
- v) The balance at the bank would be understated by these outstanding deposits.

Therefore, management explanations are required as to why these deposits had not been settled yet and advice on what alternative ways to be put in place to at least minimise the value of outstanding deposits.

Date	Details	Vouchers	Amount
10/11/10	FD Tanaea 01/10 774642	201002011	694.80
10/8/11	Rev F/11/11 RR# 869315 ret bus fare	DEV 20110807	55.00
31/5/13	FA KIT 10/13RR#031905-031924	201305010	725.00
30/11/13	FA MFAI 59/13 RR# 061018-061100	201311005	805.00
31/1/14	Mfai 60/13 rr061101-061155	201401002	4,420.00
30/4/14	Mfed FA 20/14 rr060739-060751	201404002	23,770.66
31/12/16	RP201612011		3,610.00
	Total		\$34,080.46

Management response:

- From the bank reconciliation given by management - RP which is for the project as you mentioned as the cash flow of the project could be affected since these are the RV which is revenue for recurrent.
- In response to the table provided for the outstanding deposits as at 31/12/16 have confirmed that those vouchers mentioned are not on the bank reconciliation for 2016 as per Bank reconciliation attached for easy of reference. (appendix 2).
- In regard to the long outstanding deposits not yet appeared on the bank statements, we will trace it from the respective ministry as I have assigned the Accountant from the Revenue section to deal with these issues. We will try and adjust these long outstanding deposits before the closing of this year 2017 account. Since this issue has been raised during the PAC 2013 to 2015 that six 6years back is recoverable as mentioned by Auditor General.

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3.4.3.2 Value of un-presented cheques as at 31/12/16 \$2,444,602.28 (2015 \$1,549,340.06)

Based on the bank reconciliation report 2016 the value of un-presented cheques (withdrawals not on statements) had increased significantly by \$895,262.22 (i.e. 2016: \$2,444,602.28 less 2015: \$1,549,340.06). As observed, the un-presented cheques reflected above of \$2.44m involved various payments to respective payees who had not claimed their payments for over period of time failing by which would result in becoming stale (cheques) and therefore such could also inflate the net worth of Government as at 31/12/16.

The balances of the respective projects would be inflated by the payments still pending and could adversely affect the progress of the activities and/or the completion of such projects.

Management response:

Management agrees that the un-presented cheques has increased by \$895.26k or 57.78% in comparison of un-presented cheques reported in the 2015 finance. If analysis is extended base on the 2016 bank reconciliation report, it could be noted by the audit that the un-presented cheques was for 2016 FY only. As the case for No.1, the bulk for the No.4 un-presented cheques is in December in the sum of \$2.27 million. There were no un-presented cheques reported for 2015 and prior years, as these are already stale and/or claim by payees prior such became a stale cheque. Stale cheques, if there are any, have been recorded separately and are pending to be claimed by claimant. Depicted below for verification and perusal.

Year	Jan	Feb	Mar	Apr	Jul	Aug	Sep	Oct	Nov	Dec	Grand Total
2016	25.00	2,899.92	280.00	450.00	150,205.39	2,537.90	362.00	9,461.57	11,505.42	2,266,875.08	2,444,602.28
Grand Total	25.00	2,899.92	280.00	450.00	150,205.39	2,537.90	362.00	9,461.57	11,505.42	2,266,875.08	2,444,602.28

As can be seen above, there are cheques within 2016 FY that should have become a stale cheque but reported as un-presented payment. The reason behind this is that such cheque remain unidentified and/or in the hands the payee during the reconciliation period. Search and investigation on this is a continuous task for management, but value of such will diminished over the year.

Despite this effort, the un-presented cheques will remain increase due to current practice, where the Treasury will announce a cut off period for payment process to line ministries, this is normally 1 week before the end of December each year. This is adopted in order to allow the Ministry to expend its warrant fund within the financial year in accordance to the project timeline and plan.

This treatment has no effect to the annual account nor to the warrant of fund in the following year and it has no impact to the closed financial year as such is already accounted as expenditure, neither to the progress of the activities and completion of the individual project. As authenticated in the No.1 account response: the only effect of this practice is on cash flow, but this is at the advantage of the Government for cash outflow was not realized at end of 2016 instead cash at bank will be affected in 2017.

Because the Government Accounting continuously follow the cash basis, hence project fund that have warranted cannot be committed in a contemporary accounting practices as in the accrual basis. To allow Ministries to expend their warrant project fund according to the project timeline and plan, cheques has to be raised prior end of year as if payments have been made. In fact these should be considered as commitments at year end.

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3.4.3.3 Unavailability of Stale Cheque # 164781 amounted to \$500.00

The audit confirmed that there is one stale cheque was unable to be located as the concerned Ministry still searching for this cheque.

Implications:

The unavailability of stale cheque could lead to misappropriation of cheque.

Recommendations:

MFED should ensure find ways of searching this stale cheque and kept them safely.

Management response:

3.4.4 Government No. 5 Bank Account

Finding and Analysis:

It was detected during the audit that preparation and presentation of the Bank Reconciliation 2016 was not performed as required even though the audit had exerted pressure on management in considering this essential financial instrument. It has been four (4) years (2013 to 2016) the same issue was also detected in our previous audit reports thus proved management had ignored previous audit recommendations therefore those concerned should be reprimanded accordingly.

The audit confirmed the balance appeared in the bank statement for No. 5 Account was **\$204,760.10**. However, this differs from the amount disclosed in the annual account of **\$2,026,801.63** thus constituting a variance of **\$1,822,041.53** an amount which was overstated by the MFED figure. This proved again there was no reconciliation performed between the MFEP and Linnix. In essence, the audit would not be able to confirm the accuracy and existence of the balances disclosed in the annual account for MLPID for 31/12/2016.

2014 Implications:

- *Without regular bank reconciliation, direct debits or any other bank errors would not easily be detected which could ultimately lead to loss of public funds. Lack of proper bank reconciliation statement contravened FR 16.13.*
- *The absence of any control measures would encourage actions that would lead to misappropriation of public funds.*
- *The absence of reconciliation with records held by MFED would undermine the balances appearing in the government annual account and could result in issuing a disclaimer opinion.*
- *Failure to agree by M/Linnix and MFED on the balance as appearing in the bank statement and to provide supporting list to explain the variances noted would provide avenue for and encourage misappropriation of government funds and of course increase risk of loss of public funds.*

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2015 Recommendations:

- The audit strongly recommends that the responsible and accountable staff of MLPID should use the proper format when preparing the monthly bank reconciliation statement.
- Management should seriously consider reprimanding staff concerned for having repeatedly failed to comply with the correct bank reconciliation process.
- Management should regularly review the work of the concerned staff and to quickly take remedial actions.
- The Senior Accountant should ensure also to conduct a regular reconciliation with records held by MFED to agree on the balances and should be able to provide explanations to support the anomalies detected in the Annual Account for year 2016.

Management response:

There were no reconciliation being undertaken for the No.5 bank account between the MLPID Account Division and the Ministry of Finance – Treasury. It is possible that the responsible officer may have attempt to do the reconciliation, unfortunately such was not reflected in the Treasury record as none being received.

Request for cut off period to start off the bank reconciliation afresh was conveyed in prior years, but approval on such has not been received. If Treasury could be granted a cut off, the reconciliation will be undertaken then where officers of the bank reconciliation at the Treasury will be visiting the MLPID in Kiritimati for such purpose. This is due to the need of source documents, this therefore, remain pending and the issue until such time approval is granted.

3.4.5 Government No. 6 Bank Account (Stabex Fund)

The No.6 bank account is also known as the Stabex account for copra fund to which future improvement is still required as there were weaknesses been found in my previous audit reports. However, as evidently shown in the 2016 annual account (page 26 refers) the balance of the No. 6 bank account was significantly reduced by **\$121,102.26**. The reduction in value of **\$121,102.26** was discovered after performing the comparative analysis of this year 2016 balance of **\$6,816.00** against that of reported in last year 2015 amounted to **\$127,918.26** respectively. Further, there were control weaknesses appearing under Special Fund which have been noted and discussed earlier for Stabex account. (Section 3.3 special fund refers)

Management response:

The comparison of bank balances over different years is important to show the trend of cash movement. However it is important to note that the treasury could not control the movement of funds that are proper and reasonable. Bank accounts were set up for specific and respective purposes. No. 6 Bank account in particular was set up for the Kiribati Copra Cooperative Society (KCCS) therefore it reflects all KCCS receipts and payments during the year under review.

To reiterate as in our 2015 response the copra payment system reform (changing of copra fund administration from MCIC to MFED) was taking place in the year under review 2016 therefore affecting the use of this Bank account. Also starting in June up to December 2016 there were no transactions occurred therefore the reason for the notable drop in this bank account balance. Based on supporting documentations this is reasonable and proper.

Treasury is kindly requesting the audit if this issue could be cleared since it is not justifiable and control weaknesses related to Stabex special fund should be specifically stated only under Section 3.3 of this report since the nature of these two accounts are completely different.

3.4.6 Kiribati High Commission – Bank Reconciliation FY 2016

Finding and Analysis:

It has been noticed from the previous audit when auditing 2013 to 2015 annual account that the preparation of the Bank reconciliation had not been completed neither for 2016. The audit confirmed at the time of the audit visit that Bank reconciliation for 2016 was just only completed up to the following months (January, February and December) 2016. The remaining bank reconciliation for the months of March to November was incomplete.

The audit checked and confirmed that the Balance as per Bank reconciliation 31 December 2016 was **F\$101,745.62** (equivalent to AUD **\$66,959** at the rate of 1.5195). The balance disclosed in the annual account was AUD **\$2,054,608.49**. The audit could not verify the variance of **\$1.9m (\$2,054,608.49-\$66,959)** an amount which was overstated by MFED. This confirmed that KHC had not maintained regular reconciliation on a monthly basis with MFED nor adopted the audit recommendation raised in previous audits thus those concerned should be reprimanded accordingly.

2015 Implications:

- *Unsupported excessive variance would undermine the integrity of the posting system by MFED.*
- *Misstatement of funds and no regular bank reconciliation would encourage fraud.*
- *The absence of performing regular bank reconciliation with MFED records could also lead to a misleading balance shown at the year-end in Government annual account.*

2015 Recommendations:

- *Audit recommends that management must ensure that proper bank reconciliation statement should be prepared and reconciliation is performed by Senior Accountant at KHC on a monthly basis.*
- *Also Senior Accountant should ensure to regularly reconcile her bank balances against MFED's records including other Gov't Ministries and/or Agencies.*
- *Before closing the annual account balance for KHC, MFED should ensure that KHC had reconciled their bank account so to account for the agreed balance figure in the final annual account to avoid huge overstatements by MFED and of course distortions to the net worth value of Government.*

Management response:

Management and treasury agree to this comment and will try to ensure that these areas will be improved in the 2017 account provided that present challenges will be addressed such as shortage of staffs, lack of effective and appropriate accounting system and insufficient budget.

3.4.7 Outer island state fund – Code M0032

Whilst performing this year audit the following issues were detected as follows:

1. Unavailability of Cash Book for some respective outer Island state fund.

The audit had chosen five island state funds which are Fanning state fund, Kanton, Betio PO, Bairiki PO and Bikeninbeu PO to perform its further testing essentially on their cash closing balances. However due to the unavailability of the cash books the audit team could not validate the amount disclosed in the annual account as the correct balance for above selected outer island state fund. Hence comments and response shall be provided from management accordingly.

2. Lack of reconciliation

It was confirmed that no proper reconciliation had been conducted by responsible officials and this was simply evidenced when detecting several variances between the balances reflected in the Cash Book with that disclosed in the General Ledger reports as indicated below:

Allocation	Islands	Cash Book Balances	General Ledger	Discrepancy
M0032000003A	Abaiang (State Fund)	38,473.00	38,403.33	69.67
M0032000004A	Abemama(Sate fund)	28,454.60	28,505.07	- 50.47
M0032000005A	Aranuka(Sate fund)	6,321.59	6,705.20	- 383.61
M0032000006A	Arorae)State fund)	23,887.70	23,890.01	- 2.31
M0032000007A	Beru (Stae fund)	-	1,029.56	1,029.56
M0032000008A	Butaritari(State fund)	4,028.00	3,487.87	540.13
M0032000009A	Kuria(State fund)	451.00	1,247.81	- 796.81
M00320000010A	Maiana (State fund)	1,625.40	1,629.74	- 4.34
M00320000011A	Makin State fund)	8,085.50	8,105.46	- 19.96
M00320000012A	Marakei (State fund)	580.90	729.72	- 148.82
M00320000013A	Nikunau (State fund)	1,690.00	697.12	992.88
M00320000014A	Nonouti (State fund)	2,596.24	2,930.84	- 334.60
M00320000015A	Onotoa (State fund)	6,225.65	6,647.79	- 422.14
M00320000016A	TabNorth(State fund)	1,322.75	1,827.20	- 504.45
M00320000017A	TabSth(Statefund)	57,430.89	57,563.68	- 132.79
M00320000018A	Tamana (State fund)	36,582.60	36,581.45	1.15
M00320000019A	Banaba (State fund)	11,189.52	- 318,868.57	330,058.09
M00320000023A	Abaokoro (State fund)	10,761.00	11,030.65	- 269.65
	Total	239,706.34	- 89,915.19	329,621.53

3. Failure to send State Fund Monthly Returns

Appended below are some of the selected islands in which their monthly returns were still not submitted to the Ministry of Finance as follows:

- Fanning Island – January up to December
- Kanton Island – January up to December

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4. Board of Survey

As stipulated under FR 11 chapter 18.1 at the end of each fiscal year the Board of Survey must be carried out to examine bank balances held by the accountant general including, sub accountants, postal officers and any other public officers in possession of cash. However, as discovered there were no sign of reports available or provided in respective of i) Fanning (Tabuaeran), ii) Kanton as well as iii) Washington (Teraina)

5. It is therefore of paramount importance that management explanations or justifications shall be provided to address the listed shortcomings above.

Management response:

1. The five island mentioned in the audit report should be clearly categorized as only two out of the five are the State Fund Account which are Kanton and Fanning. These two islands fall under the supervision of Kiritimati since they have been handed over to Kiritimati. Therefore the cash books for these islands are at Linnix office in Kiritimati. The other three islands mentioned which are PO Betio, PO Bairiki and PO Bikenibeu are standing imprests.
2. Regarding the lack of reconciliation, there is a reconciliation that always done by the Examination unit before posting all the transactions on the state fund account to the system.
3. If there is a difference in the Cash book balance and Physical Cash on Hand then the Treasurer will be surcharged on the shortage (i.e. the physical cash is less than the Cash book balance). If there is surplus (i.e. the physical cash is more than the cash book balance) the treasurer will be informed to receipt that surplus found from the examination of the state fund account.
4. As mentioned earlier that those two, i.e. Fanning and Kanton islands are in the guardianship of Kiritimati. Therefore, the report on the examination of these two islands could be obtained from Kiritimati as well as all the documents. On the other hand the report for the board of survey falls in the hand of the Internal Audit division.

3.4.8 Cash in Transit (RBC) - Code M0033

As could be recalled in my previous audit reports the Cash in transit (RBC) account represents the internal movement of cash between MFED and the designated sub-accountants, local government and other agents on outer islands. In actual fact the balance of this account should be nil/zero at the end of each financial year as codes debited by the paying station will then be credited by the receiving station respectively. However, in practice, a balance would still exist at the year-end due to the time factor from when the money was paid in and the time it was paid out by the remote station.

In referring to the annual account 2016 the RBC balance for fiscal year 2015 was totaled to **\$1,609,926.14** yet the audit realized that the balance had been hurdled to a sum of **\$2,572,977.84** in year 2016, an amount of which had signposted the increase in value of over **\$963k (\$2,572,977.84 less \$1,609,926.14)** significantly.

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Additionally, there were other irregularities detected by the audit team after carrying out further testing particularly on the RBC inwards and outwards register. Further details of such irregularities are provided and itemized as follows:

i) **Variances detected of RBC sent to selected outer island councils.**

- Audit revealed that RBC of \$90k paid on PV424/16 (Min.Ref of DEV: 421/16) to Treasurer at Nonouti Island Council was not tallied with the Treasurer's record. That is, the amount appeared on the treasurer cash book for the month of Dec 2016 was \$85k (refer RR#298801 dated 27/12/16) which has resulted in reporting the shortfall value of \$5k. However, on the other hand there was a surplus of \$5k being detected after gone through the RBC account for Tamana thoroughly. The surplus noted of \$5k was materialized when RBC of \$22,000 (PV 432/12) that was issued out to Tamana Island Council and receipted on RR# 273609 totaling to \$27k as indicated by the treasurer records (return). Hence adjustment should be made by responsible officers accordingly.
- Further, the variance of \$90.00 was noted between the RBC amount sent to Abemama and the amount being acknowledged by the treasurer at Abemama Island Council. Yet, this was actually happened when the three separate PVs of RBC which were sent to Abemama in the sum of \$120,830.00 whilst the amount that had been acknowledge and receipted was \$120,740 in total (RR# 265119 \$37,470 265128 \$45,000 265136 \$38,270) hence the variance of \$90.00 was realized as a result. However, the RBC for Beru Island that was paid on PV 472/16 \$70,500 did not agree with the amount acknowledged/receipted by treasurer valued at \$70,590.00 as indicated on RR# 202465 resulted in the surplus of \$90.00.

ii) **Missing of RBC for Makin valued at \$25k**

- As informed the above RBC was being issued out to Makin Island on payment voucher 438/16 dated 22/12/16 valued at \$25k. However, the said RBC of \$25k never reached its destination (Makin Island) due to the returning of the aircraft to Tarawa without landing on Makin for some reasons.
- Later the RBC was noted gone missing when the replacement flight for Makin re-scheduled to 27/12/16 in which all air cargoes including the RBC were loaded onto Y12 (GULD) for Makin flight. Yet, the change in aircraft schedule was realized and instead of the Y12 flying to Makin, the Twin Otter (LIMA) was scheduled for Makin flight whereby all cargoes offloaded from Y12 aircraft and reloaded onto the Twin Otter aircraft.
- Upon arrival of the Twin Otter at Makin Island the AKL Agent confirmed and reported to AKL Bonriki that there was no RBC on the aircraft that landed on Makin the same day. The full detail of this issue was further elaborated in the letter dated 13/01/17 that was sent to the Police for further investigation purpose.
- It was further noted that the corresponding response from the Police (refer Police letter dated 19/09/17) regarding the reported case was actually stated that the investigation on the reported case was almost completed. Nevertheless, the letter also emphasized that so far no solid evidence was detected to justify the right suspect of the missing RBC from the possession of the Air Kiribati.
- It is therefore of paramount importance that the Accountant General for Postal delivery and the Chief Executive of AKL as the carrier should take into consideration this issue seriously so as to come up with better procedures and stringent actions so to deter such malpractice from recurring in future.
- AKL should make good for the cash loss to the Government, being the company having had possession of the cash since when they received from Post Office staff and had changed flights on two occasions to Makin, knowing all the time there was an RBC on board from the first time the flight was to leave.

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iii) **RBC for Fanning and Washington amounted to \$1,214,747.06, \$279,750.93**

- As noted there were No Monthly returns made available for the above designated accounts during the year. The absence of the above reliable information (documents) could prevent auditors from performing further testing on the accurateness of the RBC issued out to these island councils. Hence valid justification was required from management accordingly.

iv) **Outstanding RBC**

- After reviewing the RBC accounts for some respective selected islands it was noted that there were no contra accounts to offset these RBC and that was a result of lack of proper and regular reconciliation by responsible officials, re details shown in the table below.

Year	Island	Month	Reference	Amount
2016	Abemama	Feb	State fund-Feb	450.00
2016	Abemama	April	State fund- April	445.00
"	"	May	State fund=May	185.00
"	"	July	State fund-July	295.00
"	Makin	June	State fund June	280.00
"	Tabiteuea North	January	State fund-January	390.00
		Total		\$2,045.00

Management response:

- Nonouti State Fund Account 2016 Dev.421/16 @ \$90,000.00 not tallied in the Treasurer's record and actually receive \$85,000.00 so there is a difference of \$5,000.00. In regard to Tamana State Fund Account there is a surplus of \$5,000.00 that was actually receipted on the rr#273609 the amount of \$27,000.00 instead of \$22,000.00. So, the JV is raised this year for adjustment
 - DR. M0033000018A @ \$5,000.00
CR. M0033000014A. @ \$5,000.00Beru State Fund has receipted \$90 on rr#202465 as a surplus. Thanks for the Treasurer for this acknowledgment. And for Abemama there is a shortage of \$90 therefore the JV adjustment for this mistake is to
 - Dr. M0033000007A @ \$90.00
Cr. M0033000004A @ \$90.00
- Polices' report on this case not yet completed as the corresponding response obtained via phone conversation dated 8/12/17 with one of police officer regarding the reported case was conveyed that the investigation was completed but still needs to undergo some reviews from responsible officers before lodging it to the Attorney General office. Concerned officer emphasis that he cannot release further information accordingly as this case is not yet finalized.
- Monthly returns for Fanning and Washington can be sighted at Kiritimati.
- Outstanding RBC are Abemama, Makin and Tabiteuea North are not outstanding RBC but are the mute RBC which should be debited to the M0033 RBC code to the respective island codes such as Abemama 03, Makin 11 and Tabiteuea North 16. The contra for these RBC mute is the receipt that the Treasurer acknowledge in receiving the RBC sent from MFED.

3.5) STATEMENT VII: ADVANCES FROM CONSOLIDATED FUND AS AT 31/12/2016**Findings and Analysis:****3.5.1 Comparative advances from Consolidated Fund for years 2013 - 2016****Table 3.5A: Summary of Advances from Consolidated Fund**

Title	FY 2013	FY 2014	FY 2015	FY 2016	inc/(dec) 16	inc/(dec) 15
Public Officers	9,037,198.87	11,548,038.45	12,504,876.46	13,369,006.34	864,129.88	956,838.01
Sundry Advances	-426,582.42	-412,492.10	-387,182.69	-235,175.13	-152,007.56	-25,309.41
Total	\$8,610,616.45	\$11,135,546.35	12,117,693.77	13,133,831.21	712,122.32	\$982,147.42

3.5.2 Comparative graph of Advances from Consolidated Fund for years 2013 - 2016**Figure 3.5A: Comparative line graph for advances from Consolidated Fund for years ending 2013 up to 2016.**

The table/graph reflected above depicts the level of advances from consolidated fund for the years ending 2013 up to 2016. As noted the level of advances for the last four consecutive years had kept increasing significantly by \$2.5m in 2014, a slow increase of \$982k noted in 2015 and \$1.01m (2016) respectively.

As was reiterated in my prior audit reports such figures of advances have an adverse effect on the government cash flow as these are cash tied up by respective officials hence management should instigate and pursue proper remedial recovery action from officials concerned so as to avoid having aged debts that could pass the Limitation Act of 6 years.

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3.5.3 Advances (Personal & Salary Advances): (L100A) 2016 \$8,091,237.37 (2015: \$7.73m)

In referring to the annual account 2016 the balance for advance account (L100A) was further increased by \$357k an amount of which exceeded the increase noted in financial year 2015 of \$224k, (i.e. (2015) \$7,733,326.31 less (2014) \$7,508,697.72). The audit further noted that an Advances (L100A) account was mainly derived from the labeled sub accounts as per indicated in the table shown below:

A	B	C	D	E	F
Advance(L100As)	Code	Amount per Trial balance	Credit balance	Audit figure (C-D)	Annual Account 2016
Salary Advance Control	L100A000000A	28,722.95			
Xmas Salary Advance Control	L100A000001A	1,363.50			
Salary Advance Control (L100)	L100A000002A	3,812,385.92			
Salary Advance Clearing (Payro	L100A000003A	270.00			
KHC Resp Advance Account	L100A000004A	24,169.14			
PFL100 Individuals	refer trial bal code	4,250,693.00	26,367.14		
Total		8,117,604.51	26,367.14	8,091,237.37	8,091,237.37

In addition, the audit had further detected some anomalies during the review and these are elaborated in detail as follows:

- The audit had managed to detect the discrepancy of \$47,387.34 between the trial balance figure of \$3,812,385.92 (L100A-2A) and the customer aged figure of \$3,764,998.58. The variance noted of \$47k indicates lack of proper reconciliation by officers concerned. However, in my previous audit report these two records always matched as noted during the review and therefore reasonable explanation should be provided by management as to why these two records did not match as anticipated in this year 2016.
- There were some officers whose names appeared twice as could be sighted in the trial balance 2016 and these are provided in the table below.

Code #	Trial balance Figure	Notes
L100A415089A	\$ 45,104.79	Double name
L100A209097A	78,887.04	As above
L100A212140A	1,197.36	Double name
L100A212178A	123.30	As above
L100A206280A	64,411.47	Double name
L100A415094A	27,573.70	As above
L100A202200A	27,791.29	Double name
L100A200200A	97,964.05	As above
	\$ 343,053.00	

- It was further noted that one significant surcharge amounted to \$27,791.29 for the former treasurer at Marakei Island Council had still not recovered yet and this included cash shortage of \$12,706.86 as per noted during the review.

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- The customer card for one officer, Temakiata Tekita, was noted absent among the selected samples for further audit verification. As a result, the audit could not validate the amount appeared in the Trial Balance due to the absence of the officer's customer card in the system.
- Some officials' names who had already left the government service, as was the case in previous years, still appear in the trial balance.
- The absence or lack of activating proper recovery actions as could be evidenced by the continuing increases in the balances over the years.

If the above advances could only be annulled by inserting contra entries in the accounts to contra out these outstanding amounts, these need be activated in 2017 so to clear these accounts.

Management responses are required on the above anomalies noted.

2015 Implications:

The losses/shortages occurred and when amalgamating with others would definitely have an effect on the government cash flow and net worth if no stringent recovery action is enforced.

The unrealistic figures reported each year would undermine the credibility of the system used by Finance.

2014 Recommendations:

The Accountant General shall take into consideration the above issues very seriously and start making proper reconciliation to show the correct and actual figure of the Advance account in the subsequent financial year.

MFED should impose stringent measures against fraudulent treasurers and ensure losses of the public funds are recovered promptly through the courts.

2015 Recommendation:

MFED to ensure all other outstanding dues from employees already left the Government service should also be given priority for recovery through the courts.

Management response:

The increase outstanding in advance mainly derived from personal advance especially surcharges to treasurers.

Management will request Minister of Finance to delegate his power under cap 79 to the Accountant General, in order to undertake the followings:

- Automatic salary deductions to recover such losses from island treasurers.
- Remind KPF to send written statement to MFED before leasing KPF Contribution.

Agree with the audit finding which the information above disclosed in the financial report have not yet cleared off. Management intends to continue its reconciliation based on the same in order to clear them when possible.

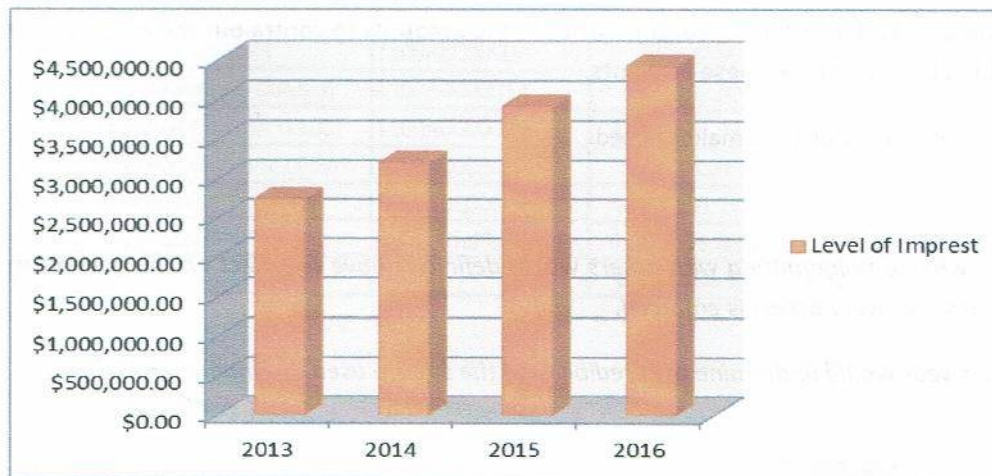
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3.5.4 Status of Imprest: (L200A)

Table 3.5D: Accumulative balances of Outstanding Imprest (2013 – 2016)

Description	2013	2014	2015	2016	inc/(dec) 16	inc/(dec) 15
Level of Imprest (L200)	\$2,748,183.00	\$3,210,169.72	\$3,925,024.90	\$ 4,428,144.52	\$503,119.62	\$714,855.18

Figure 3.5A: Outstanding Imprest comparative graph (2013 -2016)



As clearly reflected above (table/graph) the value of outstanding Imprest (L200) in fiscal year 2016 had reached the amount of **\$4.42m** an amount of which when compared with last year (2015) balance of **\$3.92m**, a gradual increase of over **\$503k** was noted as a result. However, the increase in value of **\$503k** in 2016 account was noted below the amount reported as the increasing figure from year 2014 to year 2015 amounting to **\$714k** significantly.

The audit had further confirmed that some identical shortcomings for prior years were still discovered as follows:

- The variance of over **\$264k** was noted between the Imprest Control (Customer Mod) of **\$4,306,808.51** as per Trial Balance and the Aging report figure of **\$4,571,434.75**.
- The audit had selected eight (8) officers to perform it comparative analysis mainly on their balances as per Imprest Card against balances displayed in the Trial balance 2016 the outcome of which indicates the variances noted in the table below:

Code #	Amount per Trial balance (A)	Amount per imprest card(B)	Variances (A-B)
L200A000010A	2840	2412.35	427.65
L200A007444A	4606.88	39916.46	-35309.58
L200A000333A	2145.3	14173.99	-12028.69
L200A005517A	760	1645.16	-885.16
L200A0066813A	478.25	-463.77	942.02
L200A007544AA	395	770	-375
L200A091048A	374.25	8313.61	-7939.36
L200A201303A	2157.63	NA	NA
Total	13757.31	66767.8	-55168.12

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- It was further noted with concern that one officer amongst the selected officials noted above (highlighted in yellow) does not have Imprest Card appeared in the system as conveyed by one officer from Imprest Unit thus had prevented audit team to conduct further investigation as required.
- For being unable to provide the actual balance for the deceased and those who already left the government services the absence of which would raise doubts on the genuineness of the record being kept.
- Also, the Accounting Division (Imprest) still could not distinguish between the locally funded trips from externally funded trips including the incidentals involved from the above outstanding dues.
- It was detected during the Exit meeting with two Ministries that the Imprest shown by MFED as outstanding to the end of 2016 repeatedly included already cleared past Imprests by two SROs (MM and MPWU). This is pervasive and would also lead to issuing a Disclaimer.

In light of the above shortcomings, the audit would reiterate that MFED should refer to my prior audit report especially the 2015 annual report for the appropriate comments and recommendations stated therein. The audit is of the belief that by taking into accounts such comments and recommendations seriously there would be lots of improvement expected in subsequent financial years.

Management response:

Management do share the same understanding that outstanding imprest in the last four years had increased. The increase shown each year was directly related to the late and failure of civil servants to retire their imprest and credit card within the prescribed time despite reminders sent to them from the treasury. As noted from the report, imprest drawn from local funds in particular DSA are to be cleared/or charged to output upon return of the imprest holder. This could be an effective way to capture the expenses incurred for the official travel within the reporting accounting period, but the question that may need consideration includes the followings;

- Official draw their imprest nearly at the end of the year and retired the following year thus can be an outstanding for the previous year.
- Credit Card Holders can use both imprest and credit card at the same time for the same trip so if the DSA under imprest issued are charged to output yet the DSA drawn from Credit Card would remain an outstanding issue.
- For Government officials who partly sponsored on overseas trips with limited funding information, needs full details which they only can provide after return from the trip, e.g. details on exact amount of cash received from sponsor, etc.
- Incomplete overseas trips according to visas or flight schedule change problems. We have come across these cases and noticed that some returned from Fiji and some from Australia.
- Same happened to Local trips, should stay on the island for a week but instead the job takes only 3 - 4 days, and hence returned early.
- And sometimes the travel did not take place in which case the whole amount becomes an outstanding.

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The previous year issues

- This comment have been address late this year 2017, therefore hopefully it will improved in the 2018

Request audit to erase this as the stated repeated imprest charges, incur due to a miss posting. Hence to offset such, adjustment was made as it shown on both customer card mentioned

3.5.5 Other Advances – J0046 & J0044 \$830,371.73 (2015: \$830,371.73)

It has come to the audit attention that the balance for Other Advances as disclosed above remained constant since 2015 in the sum of **\$830,371.73**. The balance for the above account (Other Advances) encompassed two codes namely J0046 and J0044 with amounts of **\$18,154.33** and **\$812,217.40** respectively. As stated in my last year (2015) report the static figures appearing under these codes would of course continuously distort the balance of the advances account if are not corrected or discarded in the proper manner.

Hence management should consider this reported incident and to conduct proper review on these accounts and also to ensure that the inactive accounts or codes do not appear in subsequent annual accounts.

Management response:

- J0046 balance for year 2016 is \$18,154.33
- J0044 balance for year 2016 is \$812,217.40
- These J accounts are standing imprest.
- As far as I can tell from the GL report is that J0046 is the compilation of all policeman officers' name on this GL report as well as post masters from different post offices.
- Management would like to propose the amount of \$18,671.28 to be written off from the balance of J0046 because officers listed in this account are no longer working in the Government as some have died and some have retired.
- Also for J0044 is for Banaba RCL payments, this account has been re-allocated to suspense account therefore for the 2017 will be zero balance.

3.5.6 Sundry Advances (K0480, K0050, K0049, K0048) -\$235,175.13 (2015: \$387,182.69)

The balance of Sundry Revenue disclosed in the annual account was negative **\$235,175.13**, however when compared with last year negative balance of **\$387,182.69** the difference of over **\$152k** was then realized as a result. It was confirmed that the difference of \$152k was noted as the decrease in value from year 2015 to 2016 respectively, thus indicated trivial improvement levied by management. Nevertheless, the amount reflected above was still credit (negative) under the assets side (Balance sheet refers) which means that gov't owed these sums to officials instead of being owed by them and therefore responses or comments from concerned officials are also sought herewith.

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Management response:

CODE	2015	2016	VARIANCE
K0480	\$ 165.00	\$ 165.00	\$ -
K0050	\$ 2,283.00	\$ 58,148.03	\$ 55,865.03
K0049	\$ 22,801.67	\$ 22,636.58	-\$ 165.09
K0048	\$ 412,432.39	\$ 316,124.41	-\$ 96,307.98

- Reconciliation must be done to these accounts as it is correct that some do have a negative balance like what the Audit mentioned in their report and some have a debit balance.
- K0048 are the bounced cheques from the deposit being debited to the Kiribati Government No.1 Account as already mentioned under the sundry outstanding deposit in a form of the cheque.
- K00050 represent double payment to suppliers namely PUB and Lus Marine, this has been resolved in 2017.

3.6) STATEMENT VIII: ADVANCES FROM DEPOSITS 2016

NO advances were made from deposits in financial year 2016.

3.7) STATEMENT IX: DEPOSITS WITH THE GOK

Findings and Analysis:

As stipulated under Section 24 of Cap 79 any moneys not raised or received for the purpose of government may be deposited with the Accountant General (or any officer authorised by him). Further under section 27 any deposit which is unclaimed for 5 years shall be paid back into the Consolidated Fund for public purposes of the Government. Details of such deposits are further elaborated under sub sections provided below.

3.7.1 Summary of deposits account for years ending 2013 up to 2016

Table 3.7A: Value of deposits account for 2013-2016

Description	FY 2013	FY 2014	FY 2015	FY 2016	Inc/Dec 16
DNE	- 1,030,032.14	- 1,181,224.36	-1,020,977.67	- 1,253,402.14	- 232,424.47
Public Officers	- 28,892.75	- 32,420.50	- 34,419.00	- 36,809.00	- 2,390.00
Sundry Deposits	3,817,700.90	863,582.04	-5,115,516.81	- 10,075,040.55	- 4,959,523.74
Telmo	- 4,366,246.45	- 794,439.42	5,580,644.80	11,205,342.83	5,624,698.03
Total	- 1,607,470.44	- 1,144,502.24	- 590,268.68	- 159,908.86	430,359.82

(Source: Annual Account 2013-2016)

The table provided above displays the balance of deposit accounts for the past four consecutive years from 2013 up to 2016. However, at the end of 2016 the deposit accounts balance had a net balance of over negative \$159k; a shortfall value of \$430k was noted when compared with last year balance of over negative \$590k. Further, most of the balances appearing under the deposits accounts included massive unreconciled figures as indicated in sub accounts anomalies noted below.

3.7.2 Deceased National Estate (DNE) - \$1,253,402.14 (2015: \$1.02m)

After reviewing the above account, the audit found the variance of **\$1,142,662.89** between the Finance records against the Land Division (MELAD) records as indicated below;

Balance as per annual accounts	(1,253,402.14)
Balance as per Land Division (MELAD)	(110,739.25)
Variance	(1,142,662.89)

As noted the variance detected above was due to the absence of proper and regular reconciliation being conducted by the MFED and MELAD respectively. The absence of proper reconciliation for the above account could raise doubt on the accurateness of amount which actually owed by Gov't to all related beneficiaries. Therefore, management should provide explanations on the variances detected above accordingly.

2015 Implication:

Without performing reconciliation regularly by the two related Ministries such as MELAD & MFED, the balance disclosed at end of each reporting period would not give a true picture of DNE balances owed by the Government to beneficiaries and therefore would distort the net worth of Government.

2015 Recommendations:

Management should ensure that regular reconciliation should be considered as a priority and to be performed on a regular basis so to derive at the correct DNE balance held by the two Ministries.

Management should acknowledge the importance of tracking the age of these liabilities for paying back into the Consolidated Fund unclaimed deposits that had never been claimed for more than five years for safe custody and refund when claimed later as clearly stipulated under section 27 of CAP 79 refers.

Management response:

- It is true that proper reconciliation must be done on a quarterly basis with Lands.
- We have to liaise with Lands, MELAD to do the reconciliation with the Finance as we have come across some like some of their money from other organisation such as KIC is only received by the Land and not sent to us for our record purposes. Eg. Baati Taam.
- The difference could come from the withdrawal of DNE by the child through Land division as it is not through the Finance. Those are the ones that are under age of 18 years.

3.7.3 Sundry Deposits:

As evidently shown in the table provided below the sundry deposit balance in 2016 had doubled the balance in 2015.

Table 3.7B: Balance of Sundry Deposit for years ending 2014 - 2016

Year	FY 2016	FY 2015	FY 2014	inc/(dec)	inc/(dec)
Total Sundry Deposits	-\$ 10,075,040.55	-\$ 5,115,516.81	\$ 863,582.04	-\$ 4,959,523.74	-\$ 5,979,098.85

Furthermore, there were some anomalies discovered when performing further testing on the above account and these are shown below by sub accounts:

3.7.3.1 Bank Agency Arrangement - \$5,076,240.67

Listed below are some of the issues noted when carrying out the audit this year:

- By comparing the balance reported last year (2015) of **\$4,414,364.90** with that reported as the balances for 2016 valued at **\$5,076,240.67** the discrepancy of over **\$661k** was noted as the increases in value from 2015 to 2016 respectively. The balance of the above sub account had kept increasing over the financial years and this could raise more concerns as the increases in value signifies that withdrawals were been made exceeding the actual amount been deposited by respective island council treasurers.
- The Ministry of Finance had failed to provide the relevant supporting documents to substantiate the huge balance of **\$5.07m** upon the audit request.
- Further, as informed, the reconciliation has never been performed regularly between the Finance and Bank (ANZ).
- The deposit made at Onotoa state fund 2016 amounted to \$7,000 receipted on RR#258412, dated 03/02/16 was noted to be wrongly allocated to code H21042917250 (Local Services) which in fact should be allocated to code 00050006117A which is Bank Agency Arrangement.
- It was further noted that the direct debit made by ANZ Bank for some selected islands were noted to be excessive and also by not providing the requested supporting documents such as SB 25 forms to agree with the Bank records and so forth. Details of which are shown in the table provided hereunder:

Date	Narration	Amount
11/01/2016	TabNoth Debit SN011/15 01/08-31/08/15 Reimb-Dep	\$ 26,305.30
26/02/2016	Abaiang, Debit A3 SN25/2015 Total Dep dd31/12/2015	\$ 21,074.30

- Also the audit found the variance of over \$42k between the amount reflected in SB 25 Form of \$3,505.20 and the direct debit made by ANZ bank valued at \$45,826.70. The variances detected of \$42k represent the overstated charged by ANZ bank to the Gov't No.1 re' details shown below:

Nonouti SN19 01/05-26/15/16	\$ 45,826.70
SB 25 for period 01/05-31/05/16	\$ 3,505.20
Difference	\$ 42,321.50

- Based on the above shortcomings noted valid and reasonable explanations should be provided from concerned divisions under MFED so as to settle these shortcomings accordingly.

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MFED management should quickly cease this arrangement if there is no copy of the agreement provided between ANZ Bank and the Government.

Management response:

- It is true that proper reconciliation urged to be made on this account.
- Accountant General has been informed by his staff that one officer should deal with this account as they have found out that bank can automatically debit or credit the Finance account which is Kiribati Government account no.1 without any notice.
- It has been confirmed that Bank can automatically debit the No.1 account without any notice to finance. It has been requested by the responsible office that if they debited the No.1 account they must sent the notice so that the responsible Treasurer must be surcharged on that amount debited to No.1 account and they never respond to this request. So, we have informed the AG on this that Finance should meet with the ANZ Bank for arrangement on these transactions been carried out without any consent from Finance.
- Regarding to Onotoa state fund account for February 2016, as mentioned is that the rr#258412 is for MFMRD revenue as clearly stated in the receipt as in settlement of Final payment for Waa n OO for Onotoa which is a project fund from MFMRD that must journalize the adjustment by Dr. H21042917250 to Cr. 00050006117A.
- Further we agreed with the audit findings on the variance between the amount direct debited to the No. 1 Account and what actually stated on the SB 25. This is still under reconciliation with the ANZ Bank to provide details and list on the amount debited to the No. 1 account.

3.7.3.2 Un-movement of balances

The audit noted some sundry advance accounts balances remain unchanged since the year 2015 or prior and the amount involved was \$3.11m. This was one of the repeated issues and was also reported in my last year report but there had not been any action taken yet. Details of these static balances by items are provided hereunder:

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Table 3.7C: Values of inactive sundry deposits account for 2015 and 2016

In-active Sundry Deposits accounts			
Allocation	Description	FY 2016	FY 2015
O0000000010A	Trade Creditors overseas	- 145.54	- 145.54
O0050000011A	Trade Creditors Prior to 2015	1,170.00	1,170.00
O0050006015A	Constabulary Reward	- 413.50	- 413.50
O0050006002A	Bangao Court Orders	632.30	632.30
O0050006003A	Telmo salaries	480.14	480.14
O0050006008A	Housing Loans	- 154,095.84	- 154,095.84
O0050006024A	Prison Fund	- 33.40	- 33.40
O0050006040A	Security Bond Immigration	- 103,258.69	- 103,258.69
O0050006067A	Private Workshop PWD	- 74,549.85	- 74,549.85
O0050006101A	Motiere Teuaai	50.00	50.00
O0050006113A	BOK Savings Accounts	- 2,769,965.09	- 2,769,965.09
O0050006114A	Forum Fisheries	- 40.95	- 40.95
O0050006116A	ODA Advance Funding	259.35	259.35
O0050006119A	FDA Loan	1,368,982.06	1,368,982.06
O0050006150A	Police Fund	5,550.11	5,550.11
O0050006325A	Small Industry Project	- 24,786.86	- 24,786.86
O0050006329A	BKL Deposit on Outer Islands	- 1,271,310.94	- 1,271,310.94
O0050006335A	No.1 PPI unreconciled credit	1,025.70	1,025.70
O0050006338A	Outer Island other deposits	143,690.52	143,690.52
O0050007186A	Uncollected telmo	- 13,503.80	- 13,503.80
O0050007790A	BPC Banaba-Preperual deposit	- 5,500.00	- 5,500.00
O0050009999A	Bank Charges Salary deduction	- 21,940.55	- 21,940.55
	TOTAL	- 3,116,866.44	- 3,116,866.44

MFED management should attend to the above as these have distorted the net worth figure as shown in the annual accounts.

Management response:

- FDA stands for Fully Drawn Advance, it is not the concept created by MFED but it is from ANZ Bank itself.
- FDA Loan under the MFED, it describes the loan from ANZ Bank by Government employees
- It was the old concept used before Attaché and need to be cleared this year and transfer all remaining balances to the new code as to ANZ Loan. This should be deleted when transferring has done.

These inactive sundry deposits account are under review and anticipated to be cleared off starting this year (2017) onward.

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3.7.4 Telmo Accounts: \$5.58m

At the end of 2016 the balance of Telmo account had reached the amount of **\$11,205,342.83** a drastic increase of over **\$5.62m** was realized when compared with the balance reported last year, 2015, of **\$5,580,644.80**. As previously mentioned in my audit report the **positive figure** shown at the year-end balance signposted that the Government had paid out more monies than what people actually paid in.

Further, there was one significant issue found during the audit and this was related to the double payment of telmo number 961625 amounting to \$10,000.00. The double payment incurred in 2016 was deliberately caused by one former cashier at MFED in which she manipulated the system by inserting the letter (a) at the far end of telmo # 961625a as she knows that the system does not accept the repetitive telmo number. This was an act of theft and it is pleasing to note that the officer concerned was already terminated and now awaiting the Court hearing as the police investigation on this case was also completed and submitted to AG's office on the 06/06/17 for further legal actions.

It was also noted during the review that the posting to the database for telmos including the reconciliation was not updated primarily for the selected outer islands such as Kiritimati, Tabuaeran, Teraina and Kanton despite having reiterated the reconciliation issues in my previous audit report. Hence responses or comments from management are also sought herewith as to why the above selected island telmos were did match up (reconciliation issue) and why no returns were available when required.

2015 Recommendations:

Management should ensure that proper reconciliation should be performed on a regular basis as a key monitoring control to save future grievances.

Management response:

- Reconciliation on telmo has been assigned to two officers that is one from the Examination unit and one from Revenue unit.
- Regarding to the Kiritimati, Tabuaeran, Teraina and Kanton are in the custody of Linnix. And for your information, the database has been installed at Kiritimati as well as in Post office in Kiritimati.
- Returns for all those islands documents were stationed at Kiritimati since Kiritimati is the mother ministry for those islands. So, the response on this could be provided by Senior Accountant of Ministry of Line, Phoenix Development (MLPD).

3.8) STATEMENT X: CONTINGENT LIABILITIES AS AT 31/12/2016**Findings and Analysis:**

In accordance with CAP 79 Part VI Sec 40 (ix) the Accountant General is also required to transmit a statement of Contingent Liabilities showing the Financial Position at the end of each financial year. Provided below is the Contingent Liabilities balances for the year ended 31/12/2014 up to 2016 as follows:

Table 3.8 A: Contingent Liabilities balance for years ending 31/12/14 – 2016.

Liabilities with ANZ Bank (Kiribati) Ltd.	FY 2016	FY 2015	FY 2014
Letter of Credit Facility (Air Service Nadi-Kiritimati Flight USD\$806k)	2,433,627	902,720	902,720
Visa Business Card Facility	280,000	280,000	280,000
Liabilities with International Monetary Fund (IMF)			
Promisory Notes 3990000 SDR	6,891,191	6,891,191	6,891,191
Liabilities with World Bank (a.k.a IBRD)			
Promisory Notes 99,000 SDR			
On call 990,000 SDR	1,880,829	1,880,829	1,880,829
Liabilities with International Development Association (IDA)			
On call 54,000 SDR	93,264	93,264	93,264
TOTAL CONTINGENT LIABILITIES	11,578,911	10,048,004	10,048,004

The Contingent liabilities were comprised of five different sub accounts as clearly indicated in the table provided above. The balance reported in 2015 of **\$10.04m** was noted remained constant when compared with last year 2014 balance of **\$10.04m** however as of 2016 the balance had hurdled to **\$11.5m** thus resulted in reporting the increase in value of **\$1.5m**. Further, as confirmed almost all sub accounts appearing under Statement of Contingent Liabilities that their balances were still remain constant except one sub account (i.e. Letter of Credit Facility) hence the increase in value of **\$1.5m** was noted.

It was further noted that the balance actually reflected in annual account 2016 for Contingent liabilities (page 31 of Annual Account 2016 refers) valued at **\$13,378,911** was incorrect. This was proved when the audit physically added figures stated therein and came up with the correct figure totalled to **\$11,578,911** as indicated in the table provided above. Hence, the balance of the contingent liabilities for year 2016 had been overly inflated by the value of **\$1.8m**, the error of which is also pervasive and would definitely disclaim the accounts.

It is therefore of paramount importance that management comments are also invited herewith as to why the balance of the contingent liabilities was incorrectly stated in the annual account 2016.

Recommendation:

Management should provide reasonable justifications or explanations mainly on the issues highlighted above.

Management response:

The comment is appreciated. We kindly asked the audit if the following will be considered to resolve the issue.

- The use of letter of credit (LC) facility was increased in 2016 due to advantages in using this instrument. In using this instrument the buyer and the seller did not interact directly however their banks act on their behalves. The buyer's bank will not release payment unless certain predetermined terms and conditions met by the seller or

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supplier. It is safer with minimal/no risk involved in dealing with importing of high and significant value goods/services.

- In 2016 the major import LC related to the order for a firetruck or MCIC entered into agreement to purchase a firetruck costing USD \$1,602,341.28 in 30 November 2016.
- The error of overstating the Contingent liabilities of \$1.8m was not intended and purely an oversight on our part. However it is important to note that individual contingent liability accounts balances were stated were correct except for the total figure.
- Statement X: Contingent liabilities did not affect the overall Balance sheet and Statement of receipts and payments since it only a disclosure as additional information and in line with the Cap 79.
- The error disclosed may be significant but it is not pervasive as it does not spread throughout the Whole of Government financial statements.
- The management and treasury kindly requested the audit to accept the correct version provided which shows the correct Total figure for Contingent liabilities under Statement X and the issue will be cleared.

3.9) Statement XI: Investments**Findings and Analysis:**

Section 40 (x) of CAP 79 requires a statement of investments showing the funds on behalf of which such investments have been made.

Table 3.9A: Investments Balances for year ending 2014 to 2016

Description	2014	2015	2016	Variance 2014-2015		Variance 2015-2016	
				Increase	Decrease	Increase	Decrease
RERF							
Investment with HSBC	\$399,914,014.92	\$371,865,017.32	\$18,478.29		\$28,048,997.60		\$371,846,539.03
Northern Trust	\$268,939,339.71	\$384,394,184.62	\$428,744,109.50	-\$115,454,844.91		-\$44,349,924.88	
State Street	\$10,117,718.30	\$80,850,388.02	\$57,854,285.79	-\$70,732,669.72			\$22,996,102.23
Black Rock			\$439,348,634.20			-\$439,348,634.20	
Sub total 1	\$678,971,072.93	\$837,109,589.96	\$925,965,507.78	-\$158,138,517.03		-\$88,855,917.82	
LAND							
Escrow land purchase-Fiji	\$9,300,180.00	\$9,300,180.00	\$9,300,180.00	\$0.00	\$0.00	\$0.00	\$0.00
PIPA							
PIPA trust fund	\$2,623,224.00	\$2,623,224.00	\$2,623,224.00	\$0.00	\$0.00	\$0.00	\$0.00
Other Investments							
Esrow Investment	\$66,536.76	\$66,536.76	\$66,536.76	\$0.00	\$0.00	\$0.00	\$0.00
IMF NO.2	\$292,186.50	\$292,186.50	\$292,186.50	\$0.00	\$0.00	\$0.00	\$0.00
World Bank	\$18,336.12	\$18,336.12	\$18,336.12	\$0.00	\$0.00	\$0.00	\$0.00
International Development	\$11,693.05	\$11,693.05	\$11,693.05	\$0.00	\$0.00	\$0.00	\$0.00
IFC Subscription	\$11,308.50	\$11,308.50	\$11,308.50	\$0.00	\$0.00	\$0.00	\$0.00
Rothschild & Sons Investment							
AUD a/c 55-1999.5th Anniversary	\$23,819.40	\$23,819.40	\$23,819.40	\$0.00	\$0.00	\$0.00	\$0.00
AUD a/c 56-0449.5th Anniversary	\$8,731.00	\$8,731.00	\$8,731.00	\$0.00	\$0.00	\$0.00	\$0.00
Subtotal 2	\$432,611.33	\$432,611.33	\$432,611.33	\$0.00			
Grand total	\$691,327,088.26	\$849,465,605.29	\$938,321,523.11	-\$158,138,517.03		-\$88,855,917.82	

The above table features four(4) different types of sub Investments which composed of: i)RERF(Revenue Equalization Reserve fund at \$925m, ii)Land \$9.3m, iii) PIPA(Phoenix Island Protected Area \$2.6m and iv) Other Investments with total amount of \$432k. It is pleasing to note that the revealed total investment balance had escalate to \$938m(an increase of \$89m i.e 2015 \$849m- 2016 \$938m) which resulted in an increase of 9.5% which however fall below an increase in the total investment of 18.6% when compared to 2014-2015.

The audit noted a drop in the State street by \$23m from 2015 (\$80m less \$2016 \$57m). The drop was caused by drawdown from State street of \$70m (equally distributed; \$35m to Blackrock and Northern trust respetively) and added up with the \$45m which was omitted in the 2015 but reflected in 2016 for State street (**\$80m +\$45m less \$70m=\$57m (refer Pg 50 2016 Annual account)**). Overall, the increase of 9.5% was driven by the upsurge in the balance transferred from HSBC to Blackrock which was equivalent to \$352 thus derived at total balance in the Blackrock of \$439m.

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3.9.1 Other Investments Status

As discovered when conducting the audit for above account some investment accounts, the details of which are displayed in the table above, were never changed in value (inactive) for more than 3 years back hence, as a result no interest were expected for such investments. However, this is the same issue reported in my previous audit report with no proper action yet taken and therefore an explanation is required from management accordingly.

- Further the Net worth of Government had been overstated by the inclusion of inactive account such as Escrow Investment of \$66,536.76 under Other Investment and that of reflected under Special Fund statement of same amount (page 32 of Annual Account). The audit is concerned whether these investments exist or not, nor the government still has the right of ownership. The audit is of the belief that these investments are subject to write off by Parliament once recommendation is received from PAC.

Implication:

Delay of proper action (reconciliation) to properly discard in-active investments would lead to Investment overstatement in some instances, thereby contributing to the rising in the unrealistic value of Total Assets in future years.

Recommendations:

- MFED has to ensure that a monthly reconciliation is performed for other investments and to maintain an investment register for control purposes.
- Management should provide the requested copy of JV800 in order to validate the actual existence and accurateness of the balance been transferred to the No. 1 account.
- (2014 Recommendation) - Room for improvement is required and we therefore highly recommended that the Finance should exerts more efforts in managing and controlling Other Investments accounts so the balance disclosed reflects a more realistic figure for current assets in future.
- (2013 Recommendation) - And to ensure that balances disclosed in the annual account are reliable and realistic, MFED in this case should ensure that investment were properly reviewed and checked by most senior staff within MFED.

Management response:

RERF and State Street are closely monitored by the Investment Committee set up as a steering committee. In regard to the rest of the special funds this will be improved and all inactive special funds will be cleared off in the 2017 account.

3.10) Statement XII – Loans from the Consolidated Fund**Findings and Analysis:**

Section 40 (xi) of CAP 79 requires disclosure of a statement of outstanding loans made from the Consolidated Fund by annual and aggregate receipts and payments.

3.10.1 Status of the Loans from Consolidated Fund as at 31/12/2016

The table below shows the outstanding loans from the consolidated fund for year ending 31/12/2014 up to 31/12/2016 as follows:

Table 3.10A: Outstanding loan balances from Consolidated Fund (2014-16)

Borrower	Financed from	Year	Aging	Principal	OS Balance as per Annual Account 2013	OS Balance as per Annual Account 2014	OS Balance as per Annual Account 2015	OS Balance as per Annual Account 2016	Variance 2013 & 2014	Variance 2014 & 2015
DBK	Consolidated Fund	1962	55 years	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00	-	-
DBK	Consolidated Fund	1977	40 years	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	-	-
KCWS	Consolidated Fund	1977	40 years	1,000,000.00	794,654.00	794,654.00	794,654.00	794,654.00	-	-
Air Tungaru	Development Fund	1980	37 years	135,000.00	180,700.00	180,000.00	180,000.00	180,000.00	700.00	-
Air Tungaru	Development Fund	1981	36 years	64,900.00	300,000.00	300,000.00	300,000.00	300,000.00	-	-
DBK	Development Fund	1971	46 years	64,000.00	64,000.00	64,000.00	64,000.00	64,000.00	-	-
Te Mautari Ltd	Development Fund	1981	36 years	250,000.00	250,000.00	250,000.00	250,000.00	250,000.00	-	-
Housing Corporation	Development Fund	1983	34 years	100,000.00	100,000.00	100,000.00	100,000.00	100,000.00	-	-
KCWS	Stabex Fund	1986	31 years	500,000.00	415,000.00	415,000.00	415,000.00	415,000.00	-	-
PUB	ADB							1,076,923.00		
PUB	ADB	1988	29 years	2,279,470.00	2,860,798.00	2,860,797.99	2,860,798.00	1,783,875.00	0.01	0.01
Betio Shipyard Ltd	ADB			894,962.00	894,963.00	894,963.00	894,963.00	894,963.00	-	-
DBK	ADB	1990	27 years	1,059,252.00	1,180,071.00	1,180,071.00	1,180,071.00	1,180,071.00	-	-
Total				6,467,584.00	7,160,186.00	7,159,485.99	7,159,486.00	7,159,486.00	700.01	0.01

(Source: Extract 2016 Annual Account)

- In conducting the audit for 2016 annual account, the audit check revealed that the outstanding loans from some of the Government State owned enterprises which were brought forward from previous years in the sum of \$7.1m remained unchanged. This indicated that corresponding repayments on such prolonged loans have been neglected for period of times since the establishment of these loans.
- Some of these outstanding loans had been existed for more than 50 years which was further noted that some companies had been liquidated. In fact, some companies still revive but there's no indication of repayment as decision for write off these outstanding loans vested within the approval of Parliament with advice and recommendation of the PAC. Hence management update on actions been taken to date is sought herewith.

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Recommendations:

(2008 Recommendation) - It is recommended that all overdue loans from the Consolidated and Development Fund be written off or converted to Grants.

(2012 Recommendation) - With the ADB loans the Government of Kiribati may seek renegotiation of the terms and conditions, for either cancellation or conversion of the debt into a grant with the ADB.

(2013 Recommendation) - Issues raised in previous audit reports should be solved as soon as possible to avoid the reiteration of same issues being reported over the years.

MFED management need to review all these loans for write off to ensure none is later activated.

Management Response:

Audit comment appreciated and again similarly with outstanding and inactive account records, the review is underway and the clearance in regard to loans from consolidated fund will be cleared in the 2017 account.

Further with respect to SOE loans from ADB the following understanding need to be considered.

1. ADB loans cannot be converted to Grants (Refer last PAC 2017)
2. These are concessional loans please refer management response under Section 3.5.2 above.
3. Advise will be sought from SOEMAU reform if loan repayment for liquidated companies could be made.

3.11) Statement XIII – Public Debts as at 31/12/2016

Section 39 (1) (xii) of Cap 79 requires a statement showing the financial position of the Public Debt. The full statement of Public Debts as at 31/12/2016 could be viewed at appendix 6 of this report.

Findings and Analysis:

- The audit could not extend further audit scrutiny on the above statement as the audit noted an incomplete format/table presented in the 2016 Annual account. The audit confirmed that the presentation of 2016 Annual account was different with the 2015 Annual account comparatively. The audit ascertained that the table disclosed in 2016 noted a missing column that should include the total outstanding for 2015 and 2016 respectively as well as the actual repayment of the loan for both years. Therefore, the audit confirmed that without a complete table/format the audit affirmed that it would be difficult to determine the accuracy and existence of such outstanding Public debt for 2016 including the actual repayment of the loan.
- Further, as noted in the table above, the audit discovered that the Bank charge, Civil Suites and Census were not budgeted for but still paid. Therefore, an explanation was also required from concerned management regarding the overspending noted above.

Recommendations:

- ✓ The Government of Kiribati should formally write to ADB and seek clarification in relation to this prolonged 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 Government of Kiribati should further seek for cancellation or conversion of the debt into a grant.
- ✓ And also the MFED should commence its review on the position of Public Debts so as to be able to give a more reliable balance.
- ✓ MFEP need to recheck and confirm the remaining balance brought forward every year in order to determine outstanding balances each year.

Management response:

1. The issue with incomplete table was noted and agreed as a failure on our part to check that the table from excel format pasted onto a word format.
2. The complete version of the table was provided during the audit along with the amended Part 2 Annual account for 2016. In case the audit lost the copy please find enclosed to this report the copy of the complete table.
3. The Attache' system is currently used to generate the GL in which the financial statements were produced. Anything wrong with the output of the attache' system will affect the Whole of government financial statement. The Database on the other hand is very useful as means to control and a working tool to register and manage budget level and actual expenditures of all Government ministries. MFED still undecided on which appropriate system to use. During these times treasury experienced challenges of short staff in comparison to intensive workload which resulted in failure to update the Database efficiently.
4. After consulting the relevant unit for public debts and advised by MFED Deputy Secretary in the last PAC meeting in 2017 these loans cannot be converted to grants. Also these loans are concessional/soft loans which mean that they are having longer terms, very minimal interest rate and special agreement on repayment terms. This is the main reason why these public debts been in the books for so long.

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3.12) Statement XIV - Arrears of Revenue

Production of a statement of arrears of revenue, by subheads is also a requirement under CAP 79, section 40 (xiii), however they do not form part of the annual accounts.

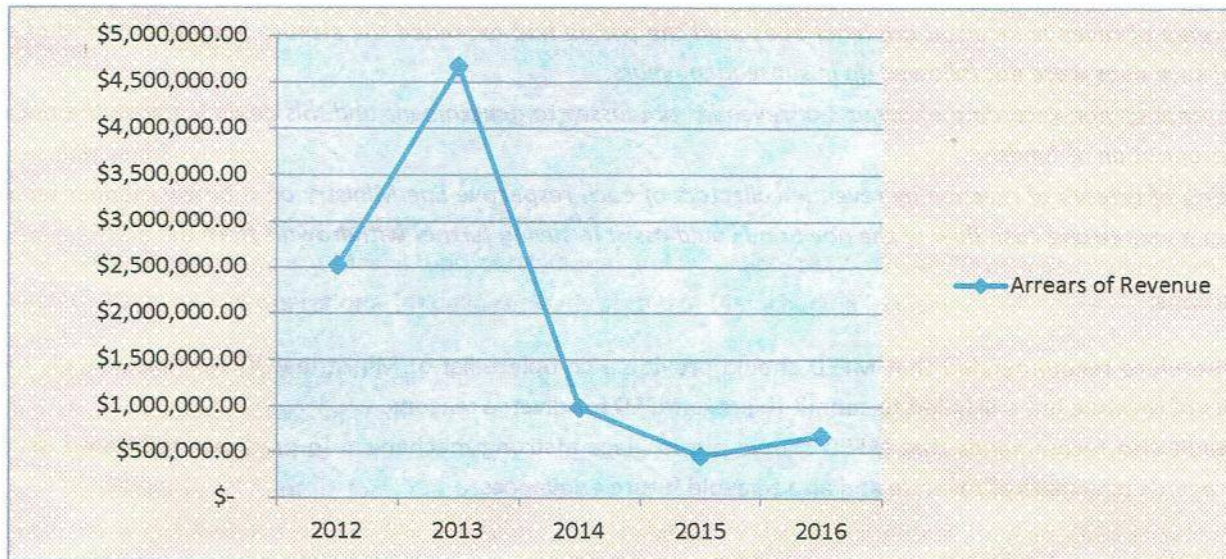
Findings and Analysis:

Table 12A: Balance of Arrears of Revenue for 2011-2016

Year	Prior Outstanding	2012	2013	2014	2015	2016	Total
Arrears of Revenue	\$ 21,305,871.83	\$ 2,515,315.89	\$ 4,661,490.79	\$ 980,634.17	\$ 453,889.10	676,253.98	\$ 30,593,455.76

		Amount					Total
Year	Ministries Prior balance	2012	2013	2014	2015	2016	
	Balance outstanding prior 2011						\$21,305,871.83
2012	Ministries of Finance and Economic Planning	\$2,515,315.89					\$2,515,315.89
2013	Ministry of Education Training and Technology		\$71,647.00				
	Ministry of Environment and Social Development		\$85,335.50				
	Ministry of Finance and Economic Planning		\$4,504,508.00				
	Sub total		\$4,661,490.50				\$4,661,490.50
2014	Judiciary-High Court			\$893.00			
	Ministry of Environment and Social Development			\$674,072.70			
	Ministry of Education Training and Technology			\$54,435.00			
	Ministry of Line and Phoenix Development			\$243,196.47			
	Sub total			\$972,597.17			\$972,597.17
2015	Rurubao				\$5,080.25		
	Teabike College				\$23,660.00		
	Melangi Tabai Secondary School				\$11,525.00		
	KGV/EBS				\$17,410.00		
	Kiribati National Audit Office				\$389,900.00		
	Kiribati Police Services				\$5,245.10		
	Maneaba ni Maungatabu				\$1,068.75		
	Sub total				\$453,889.10		\$453,889.10
2016	Ministry of Communication, Tourism, Transport Development					\$537,004.30	
	Kiribati Police Services					\$294.00	
	Ministry of Lines and Phoenix Development					\$123,588.92	
	Maneaba ni Maungatabu					\$15,366.76	
						\$676,253.98	\$676,253.98
	Grand total (Total accumulating arrears of Revenue)						\$30,585,418.47

Figure 12A: Comparative analysis graph for Arrears of Revenue for year ending 2012-2016.



The balance of arrears of revenue had been fluctuated over the last five consecutive years as indicated in the graph/table provided above. It was noted that the total accumulating balance for arrears of revenue brought forward from previous years to 2016(2012-2016) had reached \$30m. Within those five years, the audit had identified that balance disclosed every financial year had been varied and this is due to the Ministry outstanding revenue not yet collected in that particular year. In 2016, the arrears of revenue have been increased from **\$453,889.10 (2015)** to **\$676,253.98 (2016)**, of which incurring a rise in the value of **\$222,364.88**. The increase in value noted in 2016 of **\$222,364.88** shows that Ministries are failed to collect revenue during the year. The bulk of the outstanding revenue derived from MICTTD and MLIPD with total outstanding revenue of \$537k and \$123k respectively.

Although, the balance of arrears of revenue had been fluctuating over the past years and the audit is of the belief that the balances reported every year did not give a true picture of the whole government arrears of revenue due to the following issues noted:

- As could be observed only Four Ministries/Offices that submitted their outstanding dues to MFED summed to \$676 (page 37 refers 2016 Annual account). The remaining Ministries/Offices had not submitted their list of arrears of revenue to be included in MFED records.
- The accumulative balance of outstanding dues prior 2011 of over \$20m, the amount of which was not realistic and irrecoverable given the proposal to be written off once approval is considered by Parliament.
- The arrears of revenue for Judiciary of **\$8930** disclosed in 2015 Annual account (Refer page 46 2015 Annual account) was different with the amount of **\$893.00** disclosed in 2016 Annual account (Refer page 37 2016 Annual account). The audit is of the belief that the variance of \$8037 is the amount that understated in 2016 Annual account and as confirmed the Senior Accountable officer could not justify any statement with regards of such variances detected.
- The arrears as noted by year for some Ministries would be altered once a revision has been made in the most recent year to update their arrears database.

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Implications:

- *The arrears of revenue incurred are legal dues until the period had exceeded the statute limitation period of six years if such dues were not followed up in subsequent years.*
- *The absence or non-recording of arrears of revenues are losses to government and this could increase the risk of misappropriation of funds.*
- *Collecting of arrears of revenue by revenue collectors of each respective line Ministry on a timely manner would result in a very strong cash flow of the gov't and could assist in saving further withdrawals from the RERF.*

Recommendations:

- It is therefore recommended that MFED should provide a complete list of Ministries/Offices that actually had arrears of revenue but still failed to submit theirs to MFED for diverse reasons.
- The audit also recommends that MFED should put in place a strong mechanism to eradicate reiterated issues with regards to arrears of revenue and also to avoid future grievances.

Management response:

Management and treasury appreciate the comment and will work toward improving this area. Also treasury admitted that only those ministries submitting their arrears of revenue records will be included in the account and did not report those who failed to produce list of arrears of revenue.

The recommendation noted and will work on this to improve current system in place.

3.13) Statement XV – Development Fund as at 31/12/2016**Findings and Analysis:**

Section 40 (xv) of CAP 79 requires a statement of the balances on Development Fund account by annual and aggregate receipts and payments.

3.13.1 Establishment and Purpose of the Fund

The Development Fund is a special fund as stipulated under section 10 (2) of CAP 79 with its composition specified under section 10 (1) and its operational guidelines clearly stated under Schedule 2 of same CAP.

3.13.2 Balance of Development Fund as at 31/12/2016.

It's clearly evident after observing the table provided below that the balance for the Development Fund had been escalating over the past four consecutive years (2013-2016). As noted and confirmed, the total amount receipts for 2016 was increased to \$57.5m. In fact, the total amounts of expenditure had rapidly declined to \$44.3m the result of which incurred a net balance of \$13.1m. Therefore, the balance of the development fund in 2016 would be \$39m when aggregating the closing balance reported in 2015 of over \$25.9m.

Despite the above there had not been any reconciliations been made on the balances of the individual projects

Table 13A: Development Fund Balances for year 2014 – 2016

Description	FY 2013	FY 2014	FY 2015	FY 2016
Development Fund Balance as at 1st January	(15,016,044.24)	(11,392,047.36)	(21,238,265.20)	(25,931,831.54)
Add:				
Revenue (All N)	(27,346,810.08)	(35,784,375.47)	(52,212,972.20)	(57,495,227.86)
Deduct:				
Expenditure (All H)	30,970,806.96	25,938,157.63	47,519,405.86	44,379,180.97
Development Fund Balance at Year End	(11,392,047.36)	(21,238,265.20)	(25,931,831.54)	(39,047,878.43)

Additionally, the audit is of the belief that the balance of Development Fund reported every fiscal year did not give the true and accurate picture of the Funds due to the following anomalies noted earlier in my audit report as follows:

- The broad forwarded balance of \$15,016,044.24 (Refer 2013 Audit Report, page 47) Refer Statement XVI.
- Issues/anomalies noted under Special Fund & Statement VI (2013 Audit Report refers)
- Not taken into account all "in kind" aid from Donors which contrary to Contemporary Accounting Practices.
- Had reconciliation been made on the projects by respective Ministries? And did they regularly do acquittal when allocated funds had been utilised?

Management response:

Management and treasury would like to ask the audit if the issues related to previous audit reports not considered in this report and opinion since they already answered in previous audit reports.

In regard to project reconciliation and acquittals these are normally done by project implementing ministries with consultation with project accountant at the Project unit.

3.13.3 VARIANCES DETECTED IN THE BALANCE BROUGHT FORWARD FROM 2015 TO 2016 A/C.

- The audit had identified existing variances of \$97k in the balance disclosed in the 2015 Annual Account as opposed in 2016. The total balance for development fund by expenditure disclosed in 2015 was \$47,519,406 while the brought forward balance appeared in the 2016 under 2015 column (refer Table 6 Page 12, 2016 Annual account) was \$47,422,192. The audit is of the belief that the 2016 Annual account had been understated by such variance. After the audit extracting the difference between balances disclosed 2015 against brought forward balances 2016, the audit noted the discrepancies detected resulted in the value of some project balances carried forward in the next financial year such as noted in the table below: Therefore, reasons for the anomalies noted is sought from management.

DONORS -EXPENDITURES	Closing Balance 2015 A/C	B/F balance 2016 A/C	VARIANCES
GOK	28,805,318.00	28,786,015.00	19,303.00
Taiwan	9,165,385.00	9,165,385.00	-
PACIFIC FORUM	2,053,479.00	2,053,479.00	-
OTHERS	1,443,070.00	1,443,070.00	-
AUSTRALIA	1,438,546.00	1,438,184.00	362.00
OBSERVER FUND	800,235.00	800,235.00	-
UNICEF	755,410.00	754,781.00	629.00
NZ	706,444.00	706,444.00	-
PNG	441,385.00	359,436.00	81,949.00
EU	347,049.00	347,411.00	(362.00)
SPC	247,957.00	247,694.00	263.00
WHO	179,790.00	173,415.00	6,375.00
UNDP	173,415.00	169,760.00	3,655.00
UNEP	148,592.00	148,350.00	242.00
SPREP	143,165.00	143,165.00	-
India	137,070.00	137,899.00	(829.00)
JAPAN	124,093.00	136,859.00	(12,766.00)
UNESCO	94,518.00	96,324.00	(1,806.00)
UNFPA	77,475.00	77,475.00	-
Korea	50,761.00	50,761.00	-
TURKEY	36,479.00	36,479.00	-
Spain	34,746.00	34,746.00	-
WMO	27,538.00	27,538.00	-
UAE	16,196.00	16,196.00	-
FAO	14,883.00	14,883.00	-
WILSON OIL COMPANY	14,758.00	14,758.00	-
UN WOMEN	13,952.00	13,752.00	200.00
CANADA	12,311.00	12,311.00	-
ILO	8,629.00	8,629.00	-
GERMANY	6,320.00	6,320.00	-
PJDP	438.00	438.00	-
World bank	-	-	-
COMMONWEALTH	-	-	-
FFA	-	-	-
REVOLVING FUND.	-	-	-
	-	-	-
Total	47,519,407.00	47,422,192.00	97,215.00

3.13.4 Un-authorised spending of \$2,155,712.39**Table 13B: Un-authorised expenditure of some Donors funds**

LOCAL/OVERSEAS	REVENUES	EXPENDITURE	VARIANCES
Taiwan	5,633,710.07	6,081,214.36	(447,504.29)
UNICEF	612,020.76	1,562,744.78	(950,724.02)
UNDP	161,897.74	196,383.16	(34,485.42)
WHO	310,967.25	490,871.21	(179,903.96)
SPREP	48,629.47	99,706.56	(51,077.09)
Spain	21,141.25	61,746.78	(40,605.53)
UNEP	153,600.66	169,825.27	(16,224.61)
Korea	69,279.47	130,172.51	(60,893.04)
EU	11,422.44	343,596.53	(332,174.09)
JAPAN	100,000.00	142,120.34	(42,120.34)
Total balance of un-authorized spending	7,122,669.11	9,278,381.50	(2,155,712.39)

(Source: 2016 Annual Account)

- The above table displayed the excess spending of some Donor funds contributed to the government to finance development funds. As noted the total excess spending incurred in 2016 was \$2.15m which fall far-off below the total overspending of \$15.1m experienced in 2015. Moreover, the audit noted that the net saving reported a balance of \$7m (refer 2016 Annual Account). As stated in 2016 Annual account, "it is important that the actual value of assistance (both cash and in-kind) from these traditional donors are much higher than listed here. As clearly indicated in my previous report, one reason is that some of the funds go directly to bodies outside the Ministry of Finance and some are spent in overseas countries such as scholarship and training fees paid directly to the colleges or universities abroad".
- Further, similar to the same issue detected in the 2015 Annual account of last year (2016) audit, the audit inquiry detected that some donors have no receipts (revenue) amounts reflected in the receipts column but only payments (expenditure) costs appearing thus raises concerns on the accurateness of the data provided. Therefore, management comment and correct advice is sought to settle this anomaly.

LOCAL/OVERSEAS	REVENUES	EXPENDITURE	VARIANCES
Turkey	-	30,243.64	(30,243.64)
FAO	-	25,684.80	(25,684.80)
WMO	-	5,302.33	(5,302.33)
USGS	-	5,302.33	(5,302.33)
UNESCO	-	854.00	(854.00)
RAMCAH-UNFPA	-	200,726.90	(200,726.90)
OBSERVER FUND	-	180,264.97	(180,264.97)
PNA	-	1,400.00	(1,400.00)
GERMANY	-	1,459.52	(1,459.52)
INDIA	-	79,895.26	(79,895.26)
PNG	-	339,171.70	(339,171.70)
PJDP	-	1,982.00	(1,982.00)
Total balance		872,287.45	(872,287.45)

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3.13.5 Discrepancy of \$1.13m (Receipts against Approved Warrant)

As part of the audit testing procedure, the audit had selected only five projects as per list below to perform its audit test mainly on their existence and accurateness of Receipts and the Approved Warrant from Planning Office. However, as confirmed the warrant amount approved for the selected items had exceeded the receipts (revenue) giving a variance of over \$1.13m. As per conveyed by one of the officers from Planning Office, the approved warrant of each project should be matched with Receipts of same project frequently, hence the variance noted would raise doubt on the accurateness and reliabilities of the data provided

Table 13C: Comparative table of receipts against approved warrant.

GL codes	Titles/Names	Revenue/Receipts (A)	Original Warrant per Annual account (ST MST XV) (B)	Approved Warrant per Planning Unit (C)	Variances (A - B)	Variances (A - C)
REVENUE		\$	\$	\$	\$	\$
N22036036182	Reproductive health and family planning	-	281,412.00	278,412.00	281,412.00	(278,412.00)
N2601E064185	Support to MWYSA and ESBGV	-	34,628.36	34,628.36	34,628.36	(34,628.36)
N2905C038160	Kiritimati Power supply	1,000,080.00	1,170,739.93	170,659.93	170,659.93	829,420.07
N15024129173	Upgrading of social facilities on outer island	132,595.05	132,595.05	500,000.00	-	(367,404.95)
N24014352160	International Air service	3,627,932.52	2,643,343.08	2,643,343.08	(984,589.44)	984,589.44
	Total Tested	\$4,760,607.57	\$ 4,262,718.42	\$ 3,627,043.37	\$ (497,889.15)	\$ 1,133,564.20

Management response:

Management and treasury kindly ask the audit to consider the followings in responses to the issues noted above.

1. The comparison of project revenues (N) against the project expenditures (H) did not give a picture whether the project overspent or not. This is because the "N" recorded all project receipts which are directly deposited into the No. 4 Bank account. Resulted from direct communication between Implementing ministries and the Donor. Therefore the "N" did not capture all the warrants issued from the Planning office. Therefore to see a clear picture of what actually received as project funds the total amount of warrant issued during the year need to be matched against the total project expenditure in a year. Statement XV clearly stated project revenues (N), Original Warrant, Actual project expenditure and Project remaining balance. Based on this Statement it is clear that the overall project expenditures of \$44,379,180.97 did not exceed total warrant amount of \$51,454,508.20 showing a Project balance of \$7,075,327.23 in 2016.

If the audit agrees then management and treasury requested if the above issues could be cleared off from the audit report.

3.14) Statement XVI – Government of Kiribati Suspense Account as at 31/12/2016

Section 40 (xvi) of CAP 79 requires a statement of balances on suspense account that will fully show the financial position at the end of the year. The table provided below shows the movement in the balances of Suspense Account from year 2015 to 2016 respectively.

Findings and Analysis:

Code	Description	2014	2015	Variance	2015	2016	Variance
Z	Suspense Account	\$4,885,005.56	\$4,878,902.00	\$6,103.56	\$4,885,358.56	\$4,881,972.70	\$3,385.86

As previously noted in my audit report the Suspense Account is then created for the first time, in the Annual account 2013, to account for all temporarily holding accounts due to their uncertainty on the correct account to be recorded or posted to. However, the audit noted some identical issues reported in previous audit report as to date PAC inquiry on the 2013, 2014 and 2015 has not convened yet. The issues noted are as follows:

- The above table highlighted the trend in the balance of the suspense account. As noted, the balance disclosed in 2016 decreased from \$4,885,358.56(2015) to \$4,881,972.70(2016), of which the decrease in value of \$3,385.86. The audit had confirmed from the note disclosed at the bottom of the suspense account (Page 49) that the reason for the decrease is due to the imbalance noted when the Attache was operated thus when this amount was transferred to the "Suspense Account" the trial balance balanced. However, the problem had never been sorted out therefore the audit had just confirmed that the **decrease in value was intentionally made to balance the trial balance**. This was evidenced when the audit sighted the note provided in which explained that the imbalance amount of \$3,385.86 when transferred to Suspense Account then the trial balance is balanced (Page 49 Annual Account 2016 refers). This **therefore is pervasive and would disclaim the annual accounts**.
- Audit noted the amount of \$4,885,358.56 for suspense account carried forward in 2016(annual account-refer page 49) as closing balance was different from the amount reflected in 2015 Annual account of \$4,878,902 under statement XVI for suspense account (page 61) thus resulted in reporting a variance of \$5,456.28, **another pervasive result that would disclaim the accounts**.
- The audit could not verify and extend further audit scrutiny on the accuracy and reliability of the balances disclosed under the suspense account due to the absence of proper records held by MFED including physical supporting documentations.
- To date, MFED still awaits the formal approval by Parliament once PAC recommendation is considered and favoured regarding the write off for agreed balances of the transfer from sundry deposits account to suspense account (Refer 2012 & 2013 Report).
- As advised from Finance almost all sub account balances could not be explained or traced as these related to past transactions the substantiation of which would just not possible.

Recommendation:

MFED has to enforce a timely follow up in writing to PAC in order to push and recommend that all balances reflected under Suspense Account could not be recovered since they had been brought forwarded from many years back to date approx. over 10 years. Hence, writing off such balances is sensible and recommended.

Management has to provide its explanation on the decreases in value of suspense account and the variances noted above between the amount of suspense account that reflected in the Balance Sheet and Statement XVI.

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Management response:

Management and treasury appreciate and agree to the comment. Will try to work it out and clear off in 2017 account.

3.15 Statement XVII: Unauthorised Expenditure by Ministries as at 31/12/2016**Findings and Analysis:**

Code	Ministry Name	Revised Budget	Actual	Under/(Over)
E22	Ministry of Health and Medical Services	\$21,477,205.00	\$22,047,213.91	-\$570,008.91
E12	Kiribati Police & Prison Services	\$7,736,542.00	\$7,890,271.15	-\$153,729.15
E11	Judiciary	\$1,766,033.00	\$1,833,691.68	-\$67,658.68
E12	Ministry of Finance & Economic Planning	\$3,199,805.00	\$3,261,516.43	-\$61,711.43
E14	Ministry of Foreign Affairs & Immigration	\$2,301,878.00	\$2,332,288.28	-\$30,410.28
E16	Ministry of Environment, Land & Agriculture Developm	\$3,243,609.00	\$3,259,538.29	-\$15,929.29
E24	Ministry of Communication, Tourism & Transport Devel	\$3,149,294.00	\$3,154,452.31	-\$5,158.31
E27	Ministry of Public Works and Utilities	\$2,776,563.00	\$2,779,871.37	-\$3,308.37
E30	Debt servicing	\$1,149,693.00	\$1,762,506.44	-\$612,813.44
	TOTAL	\$46,800,622.00	\$48,321,349.86	-\$1,520,727.86

The level of unauthorized expenditure had dropped to \$2.2m from \$3.7m (i.e. 2015(\$38,445,358-\$42,182,032) to \$1.5m (i.e. 2016(\$46,800,622-\$48,321,349.86)). As noted above, some Ministries still operated above approved budget. The bulk of unauthorized expenditure was derived from Debt servicing \$612k, MHMS \$570k and KPPS \$153k. Next is the Judiciary with an overspent of \$67k, MFEP \$61k and MFAI \$30k followed by MELAD with an excess spending of \$30k, MCTTD \$5k and MPWU \$3k.

Audit also noted that there were some reasons highlighted in the Annual Account 2016 (page 8 refers)..."the overspent of the Ministry of Health is to do with large number of overseas medical referrals and the high cost of pharmaceutical products in 2016. But given the importance of health (or life) one can excuse the Ministry of Health for overspending however the other ministries overspending warrants further enquiry" which caused the overspending by MHMS.

Note: The above table is also the same table appearing under Statement II: Expenditure – Unauthorised spending by Ministries (ref: 3.2.4 on page18).

Management response:

Responses from Ministries concerned could be sighted in Part 1.

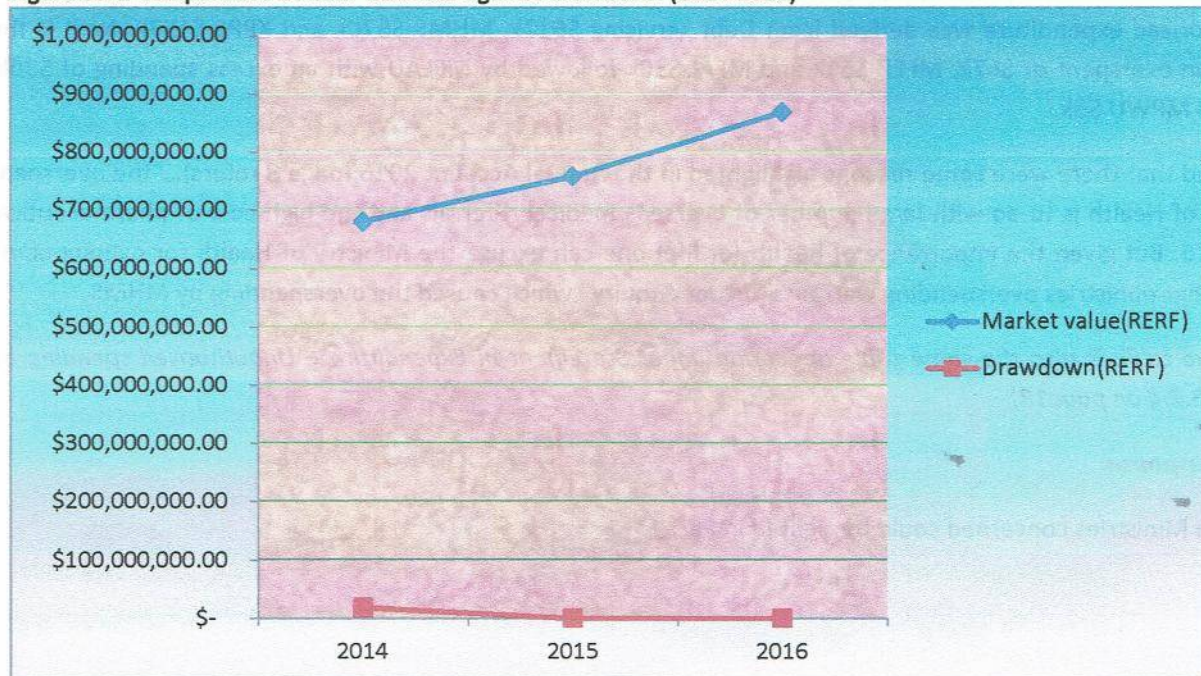
3.16) Statement XIX – Revenue Equalization Reserve Fund (RERF)**Findings and Analysis:****3.16.1 Background of the Fund**

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 been protected the RERF. Since independence Governments have generally been reluctant to draw on the RERF, preferring to accumulate funds against an uncertain future.

3.16.2 RERF Analysis – Market Value & Drawdown Summary (2013-15)**Table 16A: Summary of Market Value & Drawdown for 2014 – 2016**

Year	Market Value(RERF)	Drawdown(RERF)
2014	\$ 678,971,072.90	\$ 18,370,000.00
2015	\$ 756,259,202.00	No withdrawal
2016	\$ 868,095,699.00	No withdrawal

(Source: Investment Unit, NEPO, MFED)

Figure 16A: Comparative of RERF balances against drawdown (2014-2016)

The graph/table demonstrated above shows the trends of both RERF (Market Value) Balances and the RERF Drawdown for the last three financial years commencing from 2014 up to 2016. It is pleasing to note from the above analysis that the RERF had kept ascending over the past three years. As evidenced the total amount of RERF had been increased from 2015 (\$756,259,201.94) to 2016 (\$868,095,699) constituting an increase in value of RERF by \$111m. Impressively, the increases in the value of \$111m in 2016 exceeded the progress in the value noted in 2015 of \$77.28m. Overall, the increase of \$34m(2015 \$77.28m-2016 \$111m) indicated that the Gov't had put more effort to upsurge the value of RERF

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over the financial year and on this notable achievement management should be applauded for such remarkable improvement.

Further, it is also pleasing to note that 2016 is the second year of record the Government had not made any withdrawal from the RER unlike preceding past years when the Government entertained withdrawals from the RERF in the amounts of \$18.37 for 2014, and \$9.62m for 2013 respectively.

3.16.3 Total Income – HSBC & NICAM for the year ended 31/12/2016

The total income disclosed in the annual account 2016 for **HSBC (\$16m)**, **Northern trust \$15m**, **State Street \$2m** and **Blackrock \$50m** respectively, so when summed up together the total income at year end 2016 reached the amount of **\$51m**. However, as observed when comparing with last year audit report (2015) the RERF earned a profit for the year-end of \$71m thus clearly indicated that the total income earned for the year ended had gradually dropped by \$20m. However, the audit noted that the drop in the income of \$20m related to the loss being reported under HSBC Account in the value of **(\$16m)** which NEPO could not provide justification or statement/ reason behind such decline. After the audit analysing Statement XIX, the audit is of the belief the decline in the RERF reported in 2016 was caused by the average security /loss of **(\$34m)** which when aggregating the total income at year end for 2016 under HSBC thus reported a negative value of **(\$16m)**.

3.16.4 Injections (Deposit) to the RERF 2016

The audit also detected under the year reviewed the classification by the Accounts Division and NEPO was slightly different with regards to payments made (injections) to the RERF. As recalled from last year audit, the audit noted the \$45million which was not recorded in 2015 has now been reflected and appeared in 2016 under State Street. It was further highlighted that there was an internal cash transfer of \$70m from State Street which was equally distributed to Northern Trust and Black rock of \$35m respectively. Therefore, according to the Accounts Division records the total amount after the transfers been made added up to \$115m. However, It is also advised by NEPO that the record for the RERF is different with that reported in the annual account since NEPO classified State Street as not part of the RERF but reported it separately as an offshore cash trust account. In other words, NEPO treated the \$58m invested in State Street as not part of the RERF.

In conclusion, assuming that the total market value of the RERF as at 31/12/2016 was \$925,565,507 less \$57,854,285.79 then the actual value of the RERF (as advised by NEPO) in 2016 is **\$868,111,221.99** indicating that **Northern trust and Blackrock are considered as the RERF** at this point in time while HSBC still had remaining balance of \$18k.

3.16.5 Management Fees for the year ended 31/12/2016

The expenses for the RERF were consisted of various fees such as: management fees, custodian fees, tax expenses and other fees. As noted the total expense incurred in 2016 of \$290k is the aggregate of **HSBC was (\$3k)**, **Northern trust \$222k**, **State street \$18k** and **Blackrock \$53k** an amount which fall below colossal excess expenditure reported 2015 of \$1.58m.

Also included, as part of the expense, was the tax expense. Since the RERF is commonly known as the Government Fund, the explanation as to why RERF Custodian charged tax and, if not for the revenue, for which such tax had been deducted, is thus required.

Implication:

Government investments in other foreign jurisdictions are normally exempted from tax deductions on such invested funds and therefore deductions of this would unnecessarily deplete the value of the RERF.

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Recommendations:

Management should ensure appropriate actions are put in place to effect the exemption of tax by partner countries and, if possible, to pursue of tax been deducted by the respective custodian.

Management should revise its current Agreement with Custodians for improvement in other areas that could boost investment in the near future.

Management response:

Responses noted in 3.9 Statement XI above

4) Statement XX – Statement of Auditor Independence

4.1 Independence

We confirm that, for the audit of Government of Kiribati Annual account for the year ended 31st December 2016 we have maintained our independence in accordance with the provisions of the CAP 79. In addition, we have no relationships with, or interests in, the GOK Annual account (MFED).

4.2 Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

5 Appendix: Refer to appendices attached herewith as follows:**5.1 Appendix One: Public Fund Losses****Ministry of Finance & Economic Development**

Year	Details		Remarks
2003	Cheque collected and cash by unidentified person	378.00	OAG recommends written off
2005	Shortage of revenue at customs office	1,499.97	Shortage was \$999.97 and paid. No further action required
2007	Suspected fraud at Salary section	7,270.10	Case still with Police
2007	Alleged fraud at MFED	504.00	Case still with Police
2007	Alleged fraud at MFED	1,232.50	Case still with Police
2014	Alleged improper/fraudulent freight refund claims by Domino	136,931.36	Case still with Police
		147,815.93	

Ministry of Fisheries & Marine Resource Development

Year	Details		Remarks
2000	Loss of revenue collection at fish farm	874.30	Place under officer's personal advance
2001	Loss of revenue collection at Agriculture division	1,645.80	Officer imprisoned on 21/11/05 therefore should be written off
2010	Cash shortage & unauthorized opening of government safe FMRD Tanaea	455.70	
		2,975.8	

Ministry of Communication, Transport & Tourism Development

Year	Details		Remarks
1987	Bairiki Post office	2,758.09	Write off action requested
	Payment of telmo to unauthorized payee	600.00	Write off action requested
1988	Onotoa Post office- loss of cash	1,741.38	Write off action requested
	Serious irregularities in Shipyards Betio	1,420.00	Write off action requested
	Loss of Public funds Post office Makin	347.20	Write off action requested
	Cash shortage April 1988 account Washington	324.03	Write off action requested
1989	Telmo Discrepancies	9,936.75	Write off action requested
	Invalid stamp sales- Post Master	915.34	Write off action requested
1991	Improper use of Philatelic Funds	1,807.22	Write off action requested
1992	Loss of Public Fund KVP	733.35	Write off action requested
2005	Suspected fraud at Post office Betio	31,500	Requested for suspension on 50% pay set today. AG never receive the case
2005	Suspected fraud at Post Office Betio	7,584.90	\$4,500 has been repaid, remaining \$1,026.10 should be recovered from

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			the person concerned
2005	Discrepancy on Abaokoro stamp Imprest	300.00	Further information be obtained from the responsible Ministry
2010	Alleged fraud at Bikenibeu Post office	7,419.10	
2014	Loss of Public funds at Post office Bairiki	3,724.91	Officers appointment terminated by PSC
2014	Loss of Public funds at Post office Betio	1,263.70	Officers appointment terminated by PSC
		72,375.97	

Ministry of Works & Utilities

Year	Details		Remarks
1998	Alleged misuse of PWD materials by the Chief Engineer	3,202.80	Write off action requested
2007	Alleged misuse of Public fund by Ag DS	31,200	
		34,402.80	

Ministry of Labor & Human Resource Development

Year	Details		Remarks
1997	Fisheries Training Centre	468.15	Write off action requested
	Misuse of Korean Fund as Special Imprest	2,000.00	Write off action requested
2000	Alleged misuse of Public Funds at FTC	581.85	Write off action requested
2008	Alleged fraud at KIT	5,137.50	case still with Police.
		8,187.50	

Judiciary

Year	Details		Remarks
1989	Misuse of Bus tickets	142.95	Write off action requested
1996	Loss of Public funds at Chief registrar office	828.68	Write off action requested
		971.63	

Kiribati Police & Prisons Services

Year	Details		Remarks
1991	Double payment of Pension (Gratuity)	6,272.91	Write off action requested
2009	Improper payment of Leave Grant (Temporary Account Clerk)	13,874.35	AG's office
2013	Alleged fraud at Kiribati police service	1,347.00	no comment
		21,494.91	

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Ministry of Internal Affairs

Year	Details		Remarks
2003	Shortage of Abaiang state fund a/c	52,855.14	Reported to Police 16/01/03
2006	Shortage of Aranuka state fund a/c	5,408.05	Case for 2004, suspect convicted in Feb 2006, imprisoned for 3 months
	Loss of Abaiang state & Island fund	8,913.39	AG's office recommends a write off
	Loss of Butaritari Copra fund	21,637.70	AG's office recommends a write off
	Loss of Abaiang island fund	396.47	AG's recommends a write off
		89,210.75	

Ministry of Health and Medical Services

Year	Details		Remarks
2001	Misappropriation of entertainment funds	3,476.65	Write off action requested
2004	Misappropriation of project funds	81,151.53	Suspect in the US, Extradition considered given the amount involved
2008	Shortage of student nurses pocket money	1,056.00	
2009	Alleged fraud at MHMS Revenue section	1,860.50	
2010	Suspected fraud at MHMS	3,844.85	
		91,389.53	

Ministry of Education

Year	Details		Remarks
2004	Alleged fraud and abuse of office at TTI	2,761.09	Court dismissed the case, long delay in bringing the case to court ok
2005	Alleged fraud at Kiribati Technical Institute	2,495.23	Suspect imprisoned amount recovered
2008	Alleged fraud at Kiribati Technical Institute	5,137.50	
		10,393.82	

Ministry of Environment, Land & Agriculture Development

Year	Details		Remarks
1996	Alleged misappropriation of public funds- sale of sport equipment	440.00	Write off action requested
		440.00	

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Ministry of Line & Phoenix Group

Year	Details		Remarks
2003	Alleged fraud of Public funds	2,501.23	Reported to Police on 16/01/03
2004	Alleged embezzlement of Public funds	92,247.00	Officer imprisoned for ten years
2005	Loss of cash at wildlife unit	3,135.00	Officer imprisoned for 1 year, repay \$50 each pay day
		97,883.23	

Public Service of Commission

Year	Details		Remarks
2004	Alleged misappropriation of Public funds at PSC	4,720.00	Reported to Commissioner of Police 13/01/05
		4,720.00	

Office of Te Beretitenti

Year	Details		Remarks
2008	Loss of Public fund at OB office	7,353.50	
		7,353.50	

Date Registered	file number	Details	Amount	Date Reported to Police	Comments
1-07-16	77/01/357	double payment of telmo#961625	\$ 8,000.00	24/11/16	officer resigned
6/11/16	„	shortage in revenue collection-MFED Revenue cashier	\$ 3,905.05	13/1/16	
5/11/16	77/01/358	shortage of cash at Hight court-Revenue cashier	\$ 5,328.60	„	
Total			\$17,233.65		

TOTAL	LOSSES OF PUBLIC FUNDS	\$606,849.02
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5.2 Appendix Two: Government Balance Sheet as at 31/12/2016

3. Annual Account Statements

Statement I: Government of Kiribati
Balance Sheet as at 31st December

GLcode	Description	Actual2016	Actual2015
Asset			
I	Telmos Paid	\$269,599,516.85	\$241,680,207.83
J	Other Advances	\$830,371.73	\$830,371.73
K	Sundry Advances	-\$235,175.13	-\$387,182.72
L	Imprest and Salary Advances	\$12,538,634.61	\$11,667,416.59
M	Bank Accounts & Cash	\$115,074,536.76	\$67,953,632.56
V	Investments	\$938,321,523.11	\$849,465,605.29
Z	Suspense Account	\$4,881,972.70	\$4,885,358.56
	Subtotal	\$1,341,011,380.63	\$1,176,095,409.84
Liability			
O	Sundry Deposit	-\$10,075,040.55	-\$5,116,969.56
P	Telmos Received	-\$258,394,174.02	-\$236,110,163.03
Q	Salary Allotments	-\$21,617.35	-\$21,517.35
S	Deceased Native Estate (DNE)	-\$1,253,402.14	-\$1,020,977.67
T	SAYE	-\$15,191.65	-\$12,901.65
X	Other BS items	\$0.00	\$0.00
	Subtotal	-\$269,759,425.71	-\$242,282,529.26
	Net Asset	\$1,071,251,954.92	\$933,812,880.58
Attributed to:			
Consolidated			
	Recurrent Expenditure	\$174,370,703.34	\$308,322,502.95
E		\$174,370,703.34	\$308,322,502.95
Consolidated			
	Recurrent Revenue	-\$209,258,754.56	-\$253,315,009.40
C		-\$209,258,754.56	-\$253,315,009.40
	Net Recurrent Revenue	-\$34,888,051.22	\$55,007,493.55
Development Projects			
	Expenditure	\$44,379,180.97	\$47,421,354.86
H		\$44,379,180.97	\$47,421,354.86
Development Projects			
	Revenue	-\$57,495,227.86	-\$52,212,972.20
N	Net Development Fund	-\$13,116,046.89	-\$4,791,617.34
Funds			
	Special Funds	-\$1,023,247,856.81	-\$934,028,756.81
F	Total Equity	-\$1,071,251,954.92	-\$933,812,880.60

5.4 Appendix Four: Copy of Cap 79, Schedule 2

SCHEDULE 2

Section 77

RULES FOR THE OPERATION OF THE DEVELOPMENT FUND

1. In this Rules, "Fund" means the Development Fund.
2. (1) The accounts shall be received from the Fund for the purpose of meeting any expenditure except to the extent to which it is not under the control of the Ministry responsible for the Administration of the Fund.
- (2) Subject to the rules of the Fund, the accounts shall be received under paragraph 1, subject to the condition that the accounts shall be audited by the Ministry responsible for the Administration of the Fund.
3. (1) The Ministry shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
4. (1) If the Ministry responsible for the Administration of the Fund has not yet received for any financial year a statement of the income and expenditure of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund, the Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
5. (1) When an account is received from the Ministry responsible for the Administration of the Fund, the Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
6. (1) The Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
7. (1) The Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
8. (1) The Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
9. (1) The Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.
10. (1) The Ministry responsible for the Administration of the Fund shall cause to be prepared at each financial year a statement of the income and expenditure of the Fund for the next following financial year.
- (2) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund for the purpose of being audited by the Ministry responsible for the Administration of the Fund.
- (3) The statement for all other financial years shall be submitted to the Ministry responsible for the Administration of the Fund.

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5.4 Appendix Four: Overall Fund Performance – RERF

TYPES OF INVESTMENT	Q4G1	Q4G2	HSBC Account	Northern Trust	State street	Blackrock	Total
BY	Equities	Bonds	V0060000100A	V0060000200A	V0060000203A	V0060000204A	
FUND MANAGERS	HSBC	HSBC	Q4G1+Q4G2 (1)	Q4G3 (2)	Q4G4 (3)	-4	(1+2+3+4)
OPENING MARKET VALUE	\$370,336,355.90	\$1,528,665.77	\$371,865,021.67	\$384,394,184.62	\$80,850,392.89	\$0.00	\$837,109,599.18
CONTRIBUTIONS	\$0.00	\$0.00	\$0.00	\$35,000,000.00	\$45,000,000.00	\$35,000,000.00	\$115,000,000.00
CASH TRANSFER IN	\$0.00	\$0.00	\$0.00	\$1,568,590.20	\$0.00	\$6,156,053.46	\$7,724,643.66
CASH TRANSFER OUT	-\$39,095.19	-\$1,529,495.01	-\$1,568,590.20	\$0.00	\$0.00	\$0.00	-\$1,568,590.20
ASSET TRANSFER IN	-\$352,433,342.36	\$0.00	-\$352,433,342.36	\$3,758,698.00	\$0.00	\$352,265,880.95	\$3,591,236.59
ASSET TRANSFER OUT	\$0.00	\$0.00	\$0.00	-\$3,758,698.00	\$0.00	\$0.00	-\$3,758,698.00
LESS DRAWDOWNS	-\$5,994,395.12	\$0.00	-\$5,994,395.12	\$0.00	-\$70,000,000.00	\$0.00	-\$75,994,395.12
	\$11,869,523.23	-\$829.24	\$11,868,693.99	\$420,962,774.82	\$55,850,392.89	\$393,421,934.41	\$882,103,796.11
ADD: INCOME							\$0.00
Dividend Income	\$185,163.34	\$259.64	\$185,422.98	\$0.00	\$0.00	\$50,410,792.54	\$50,596,215.52
Interest Income	\$1,273.72	\$944.93	\$2,218.65	\$15,478,823.31	\$2,022,138.43	\$0.00	\$17,503,180.39
Other Income	\$523.54	\$0.00	\$523.54	\$0.00	\$0.00	-\$4,350.54	-\$3,827.00
Settlement Variance	\$37.08	-\$0.50	\$36.58	-\$27.09	\$0.00	\$0.00	\$9.49
Currency Gain/Loss Security Settlement	\$20,918.72	\$0.00	\$20,918.72	\$0.00	\$0.00	\$0.00	\$20,918.72
Settlement	\$5,991.03	\$0.00	\$5,991.03	-\$2,300.06	\$0.00	\$0.00	\$3,690.97
Currency Gain/Loss on Dividend received	\$9,704.39	\$0.00	\$9,704.39	\$0.00	\$0.00	\$0.00	\$9,704.39
Average Gain/Loss on currency disposal	\$16,915.61	-\$0.01	\$16,915.60	-\$2,498.11	\$0.00	\$0.00	\$14,417.49
Average Currency Gain/Loss	\$17,285,534.95	\$0.00	\$17,285,534.95	\$0.00	\$0.00	\$0.00	\$17,285,534.95
Average Security Gain/Loss	-\$34,250,798.24	\$0.00	-\$34,250,798.24	-\$8,869.76	\$0.00	\$0.00	-\$34,259,668.00
Miscellaneous Income	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Income	-\$16,724,735.86	\$1,204.06	-\$16,723,531.80	\$15,465,128.29	\$2,022,138.43	\$50,406,442.00	\$51,170,176.92
LESS: EXPENSES							\$0.00
Dividend withholding tax expense	-\$3,606.52	\$0.00	-\$3,606.52	\$0.00	\$0.00	\$0.00	-\$3,606.52
Management fees	\$0.00	\$0.00	\$0.00	\$0.00	\$18,245.53	\$53,205.14	\$71,450.67
Custodian Fees	\$0.00	\$0.00	\$0.00	\$221,827.79	\$0.00	\$0.00	\$221,827.79
Other Fees	\$29.14	\$0.00	\$29.14	\$949.09	\$0.00	\$0.00	\$978.23
Total Expenses	-\$3,577.38	\$0.00	-\$3,577.38	\$222,776.88	\$18,245.53	\$53,205.14	\$290,650.17
Net Income	-\$16,721,158.48	\$1,204.06	-\$16,719,954.42	\$15,242,351.41	\$2,003,892.90	\$50,353,236.86	\$50,879,526.75
APP/DEP	-\$4,865,565.64	-\$0.06	-\$4,865,565.70	\$99,415,522.31	\$0.00	-\$155,978,904.20	-\$61,428,947.59
ADD: CLOSING UNREALIZED	\$4,173.07	-\$0.05	\$4,173.02	\$91,954,505.58	\$0.00	-\$160,405,441.27	-\$68,446,762.67
Net Gain/Loss on Unrealized	\$4,869,738.71	\$0.01	\$4,869,738.72	-\$7,461,016.73	\$0.00	-\$4,426,537.07	-\$7,017,815.08
CLOSING MARKET VALUE	\$18,103.46	\$374.83	\$18,478.29	\$428,744,109.50	\$57,854,285.79	\$439,348,634.20	\$925,965,507.78

Source: Based on Investment Unit, NEPO, documents.

Overall Fund Performance

Revenue Equalization Reserve Fund (RERF)

Northern Trust

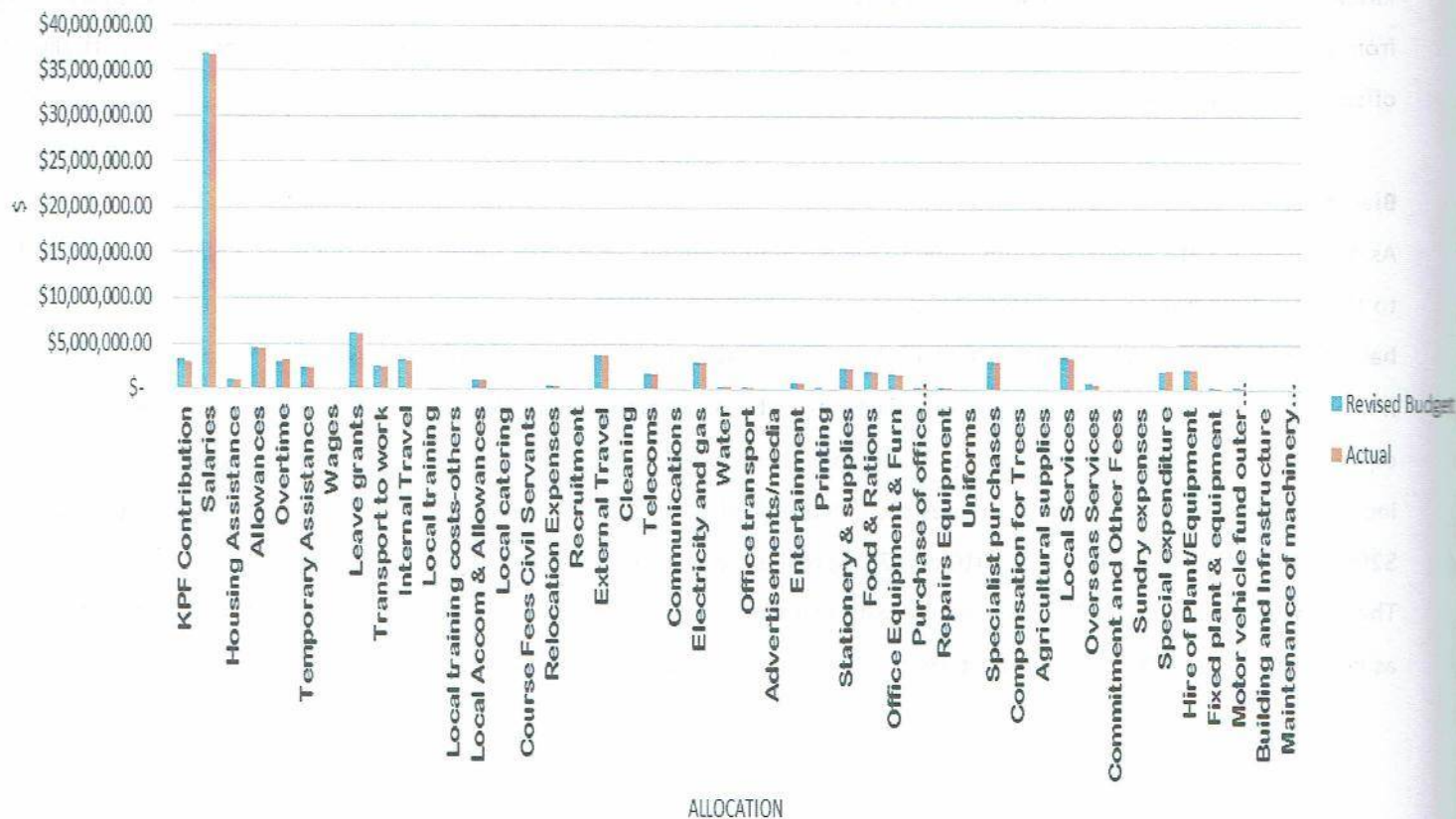
Kiribati's RERF overall balance was increased by \$88 million (or 10 percent) at 31st December 2016. This was resulted from the increase in the Northern Trust fund balance (previously Nikko the fund manager) by \$44million (12%) partially offset by the decrease in State street cash trust fund by \$22m (28%).

Blackrock

As discussed in 2015 annual account; fund managers had changed. Therefore, almost all of the HSBC balance transferred to the new fund manager Blackrock. As at 31st December 2016 Blackrock balance was \$439 million and the remaining balance with HSBC was only \$18 thousand. In January 2016 there was a contribution to State Street cash trust of \$45 million. Later in July 2016 there was internal cash transfer amounted of \$70million from State Street cash trust fund and equally distributed to Northern Trust and Blackrock. There was a notable decrease of 82% in RERF total expenses (which include management fees, custodian fees etc.) incurred this year as compared to 2015. That is, the total expenses were \$290,650.17 and \$1.58 million for 2016 and 2015, respectively. Overall the net income gained in 2016 was \$50.8 million. The NEPO's record for the RERF is different with what reported in this annual account since NEPO classified State Street as not part of the RERF but reported it separately as an offshore cash trust account.

5.5 Whole of Government budget estimate against actual expenditure by output - Graph

Whole of Government Expenditures (Revised Budget vs Actual) by each allocation for the year 2016



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5.5 Whole of Government budget estimate against actual expenditure by output – Table

Code Num	Allocation	Revised Budget	Actual
202	Salaries	\$ 36,797,973.29	\$ 36,667,584.16
208	Leave grants	\$ 6,164,761.95	\$ 6,161,342.68
204	Allowances	\$ 4,501,522.59	\$ 4,566,663.59
227	External Travel	\$ 3,661,608.28	\$ 3,694,540.78
250	Local Services	\$ 3,537,019.76	\$ 3,466,034.95
205	Overtime	\$ 2,974,156.01	\$ 3,210,456.66
246	Specialist purchases	\$ 3,072,846.37	\$ 3,135,977.68
216	Internal Travel	\$ 3,206,388.94	\$ 3,094,476.21
201	KPF Contribution	\$ 3,263,964.55	\$ 2,973,156.24
232	Electricity and gas	\$ 2,965,050.96	\$ 2,913,285.33
215	Transport to work	\$ 2,475,830.71	\$ 2,455,190.69
241	Stationery & supplies	\$ 2,333,420.42	\$ 2,354,699.81
206	Temporary Assistance	\$ 2,245,352.74	\$ 2,249,071.48
279	Special expenditure	\$ 1,913,026.70	\$ 2,196,277.05
285	Hire of Plant/Equipment	\$ 2,110,671.32	\$ 2,100,134.21
242	Food & Rations	\$ 2,019,701.87	\$ 2,068,535.17
231	Telecoms	\$ 1,683,301.11	\$ 1,653,589.17
243	Office Equipment & Furn	\$ 1,739,062.41	\$ 1,611,237.91
218	Local Accom & Allowances	\$ 1,030,984.12	\$ 1,022,522.96
203	Housing Assistance	\$ 1,007,791.67	\$ 992,922.41
239	Entertainment	\$ 681,963.07	\$ 653,471.07
251	Overseas Services	\$ 649,865.56	\$ 497,552.51
233	Water	\$ 267,073.95	\$ 463,242.24
225	Relocation Expenses	\$ 400,541.51	\$ 384,217.82
288	Motor vehicle fund outer island	\$ 235,034.40	\$ 228,462.05
243	Purchase of office equipment	\$ 223,647.20	\$ 217,673.21
287	Fixed plant & equipment	\$ 261,245.00	\$ 203,471.21
235	Office transport	\$ 295,953.50	\$ 184,785.82
244	Repairs Equipment	\$ 193,868.78	\$ 168,770.25
240	Printing	\$ 192,899.37	\$ 167,348.31
245	Uniforms	\$ 141,400.00	\$ 137,151.84
207	Wages	\$ 113,083.00	\$ 103,725.77
231	Communications	\$ 77,658.88	\$ 76,875.65
249	Agricultural supplies	\$ 73,170.00	\$ 73,166.84
290	Building and Infrastructure	\$ 70,498.88	\$ 69,512.52
291	Maintenance of machinery & v	\$ 56,838.08	\$ 55,624.42
217	Local training costs-others	\$ 55,778.34	\$ 53,574.00
217	Local training	\$ 52,249.84	\$ 42,242.59
230	Cleaning	\$ 50,324.20	\$ 36,600.68
219	Local catering	\$ 33,878.11	\$ 30,858.84
237	Advertisements/media	\$ 34,640.41	\$ 30,503.51
278	Sundry expenses	\$ 23,310.00	\$ 22,824.67
248	Compensation for Trees	\$ 17,546.00	\$ 15,448.63
226	Recruitment	\$ 14,825.26	\$ 12,195.47
220	Course Fees Civil Servants	\$ 426.00	\$ 370.00
255	Commitment and Other Fees	\$ -	\$ -
	Total	\$ 92,922,155.12	\$ 92,517,369.06