Paper No: 311

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Kiribati Insurance Corporation
For the Year Ended 31st December 2014

Kiribati National Audit Office
April 2016

KIRIBATI NATIONAL AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati

Tel: (686)21118
Fax: (686)21250
Email: infor@knao.gov.ki

Audit for an impact for the public

INDEPENDENT AUDIT REPORT

To the readers of
Kiribati Insurance Corporation
For the year ended 31st December 2014

Report on the Financial Statements

The Auditor-General, Mrs Matereta B Raiman, is the auditor of Kiribati Insurance Corporation (KIC).

I have audited the accompanying financial statements of Kiribati Insurance Corporation for the year ended 31st December 2014. The financial statements comprise:

- the Consolidated profit and loss statement,
- the Consolidated balance sheet as at 31st December 2014, and
- Consolidated Cash Flow Statement
- and a summary of significant accounting policies and other explanatory information.

Managements and Board's Responsibility for the Financial Statements

Management and the Governing Board are responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practices, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor General's Responsibility

It is my responsibility to form an independent opinion, based on my audit, on these financial statements prepared in Accrual basis and to report in accordance with the Constitution and Part VII of the Public Finance (Control and Audit) 1976.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) and Generally Accepted Auditing Practises as applicable in Kiribati, to obtain reasonable assurance whether the financial statements are free of material misstatement. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Independence

When carrying out the audit we followed the independence requirement as stipulated under the Kiribati Constitution section 114 (4) and the International Standards of Auditing.

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

Basis for Adverse Opinion

1. Financial statements:

   Trade Receivables

   I was unable to confirm the Trade Receivables balance of $467,819 due to the lack of supporting documents. Clearly, the bulk of the balance was made up from prior years' balances that current management was not aware of. It shall be noted also that an Insurance Industry was a cash basis contract business and thus the existence of Trade Receivables was questionable. Retained earnings for the period been overstated.

Fixed Assets

I am unable to verify the completeness and accuracy of assets owned by Kiribati Insurance Corporation due to the followings:

- There was no evidence to indicate that periodic stock takes were conducted in order to ascertain the existence, conditions and value of assets that were owned and were in the custody of Kiribati Insurance Corporation for the years 2014.

2. Presentation issues

The followings were presentation issues on KIC's 2014 accounts;

a) Distortion of Net Premium Income of $420,060; Tarawa General due to the additions and deductions of other income class and expenditures as such:
   - Reinsurance Commission income $94,694
   - Claims Recovered $8,206
   - Claims Paid $18,202

b) The surplus and retained earnings for the period shall be apportioned between shareholders and policyholders so as to be compliant with Insurance Industry as well as protecting the interests of policyholders in case when dividend was declared to the shareholder.

c) I could not obtain satisfactory explanation on KIC's accounting policy of estimating 40% of Premium as 'Unearned Premium for the current year since it is possible to exactly calculate the Unearned Premium rather than estimating it at 40%.

d) The Financial Statements are incorrectly consolidated under IAS 27 and have disclosure issues. For KIC, it is correct to apply IAS 14 that deals with Segment Reporting. The Balance Sheet and Profit & Loss - Statement may have two broad segments, Life and General (non-life). Further breakdown of classes of insurance can be depicted in the notes to the Financial Statements (please refer to Art 29 and 30 of the Kiribati Insurance Ordinance/Act 1981 under chap 45 A).

Adverse Opinion

Because of the significant effects of the matters described in the Basis for Adverse Opinion paragraph above, in my opinion, the financial statements of Kiribati Insurance Corporation, **DO NOT** give a true and fair view, in accordance with Generally Accepted Accounting practise in Kiribati. An adverse opinion was therefore issued on the financial statements.

Emphasis of Matter

Distributions of bonus among policy holders often requires rate suggested by the Actuary however as the audit noted, the report always submitted very late hence late payments of bonus. It was therefore important that the actuary submitted the report within the next three months following the last year of the three year period. The rate of bonus suggested by the actuary then may be distributed among the policy holders in a timely manner.

....

Mrs Matereta B Raiman

Auditor General

Kiribati National Audit Office

29/4/2016

KIRIBATI INSURANCE CORPORATION (KIC)

ANNUAL ACCOUNT 2014

"Insure to Secure"

Kiribati Insurance Corporation (KIC)
Wishing Star Shopping Mall
Bairiki, Tarawa
Phone: (686) 22627, 22628
Email: enquire@kic.org.ki

March 2015

1. INTRODUCTORY NOTES

The format of the 2014 Annual Account report is slightly different to prior years report. The 2014 report provides a more detailed classification of expenses, assets, and liabilities.

The change of presentation of the 2014 Annual Account is in line with the normal accounting standards and also in line with SOEMAU recommendation.

Certification

The Annual account presented in this report has been prepared based on the relevant information maintained in the Corporation. In the opinion of the KIC Board of Directors the accounts presented here give a true and fair view of the Financial Performance of the Corporation during the year ended 31 December 2014.

Tony Ueanteiti Vaia
General Manager

Dr. Iete Rouatu
Chairman (Board of Directors)

Table of Contents

2. ACCOUNTING POLICIES

Principal Accounting Policies

The Corporation is established under CAP 45A of the Law of the Republic of Kiribati, to carry out the business of insurance in Kiribati. The following are the more important accounting policies used by the Corporation.

Accounting Basis

The accounts are prepared under the Historical cost convention and comply with the international accounting standards, which are accepted in Kiribati.

Depreciation

Depreciation is calculated to write off the costs of fixed assets over the expected useful life of the assets, using a straight line method. The new depreciation rates used in this year's account report incorporate the rates currently used by the Tax department.

Motor Vehicle	20% p.a.
Furniture & Fittings	25% p.a.
Office Equipment	25% p.a.
Office Improvement	5% p.a.
General Manager Furniture	25% p.a.
Buildings	5% p.a.

Provisions for Unearned Premiums

Provisions for unearned premiums are estimated at 40% of the Net Written Premiums for the period. This provision is to account for Premium Income that is received in the current financial year but actually meant for next year. These amounts are subtracted from the net premium in the current financial year, but to be added back in the next financial year.

Provisions for Outstanding Claims

Provision for outstanding claims is the estimated cost for all claims reported and not settled at the end of the financial year. No additional provision is made on claims that may have incurred and not reported.

Life Contribution to General account

The contribution from life to general business is calculated at 10% from gross premium on a monthly basis.

3. KIC CONSOLIDATED PROFIT & LOSS STATEMENT

KIRIBATI INSURANCE CORPORATION
CONSOLIDATED PROFIT & LOSS STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014	2013
Net Premium Income	1	1,311,540	1,337,855
Add Other Income	2	121,292	209,952
Total Income		1,432,831	1,547,807
Less Expense	3		
Staff expense		317,699	291,172
Travelling & Transport		44,436	27,497
Promotion		3,735	7,190
Fees & charges		18,099	27,171
Financial expenses		20,513	16,379
General & Admin		226,021	202,803
Total Operating expense		**630,502**	**572,212**
Life Claims	4	626,389	534,573
Net Profit/(Loss) before PPI		**175,940**	**441,022**
Prior Periods Adjustments		(11,774)	12,032
Net Profit/(Loss) after PPI		**164,165**	**453,054**
Dividend		-	-
Retained Earnings		**164,165**	**453,054**

4. KIC CONSOLIDATED BALANCE SHEET

KIRIBATI INSURANCE CORPORATION
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2014

		2014	2013
Current Assets			
Cash and Cash Equivalent	5	6,266,344	6,089,951
Receivables	6	97,298	178,685
Total Current Assets		6,363,643	6,268,636
Current Liabilities			
Payables	7	277,641	332,905
working capital		6,086,001	5,935,731
Add Long Term Assets	8	119,292	105,396
Net Assets		**6,205,293**	**6,041,127**
Represented by:			
Shareholder's Fund			
Capital		3,584,767	3,584,767
Retained Earnings		2,456,362	2,003,309
Current Retained Earnings		164,165	453,054
Net Equity		**6,205,293**	**6,041,127**

5. KIC CONSOLIDATED CASH FLOW STATEMENT

KIRIBATI INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2014

		2014	2013
Cash Flow from Operations			
Receipt from clients		1,473,587	1,474,973
Interest received on IBD		110,496	105,444
Payments to staff and suppliers		(695,146)	(555,833)
Payment to clients		(681,653)	(599,129)
Net cash flow from Operating activities		**207,284**	**425,455**
Cash Flow from Investing Activities			
Sale of Fixed Assets		3,519	-
Purchase of long term assets		(34,409)	(19,035)
Net Cash from Investing activities		**(30,890)**	**(19,035)**
Cash Flow from Financing Activities			
Dividend paid		-	-
Net Cash from Financing Activities		**-**	**-**
Net Cash Flow		**176,393**	**406,420**
Opening Cash and Bank		6,089,951	5,683,531
Closing Cash and Bank		**6,266,344**	**6,089,951**

6. NOTES FORMING PART OF THE FINANCIAL STATEMENTS- 2014

Note 1:

Net Premium Income by Cost Centers

	TRWGen	TRWlife	XmasGen	XmasLife	2014 Total	2013 Total
NET PREMIUM INCOME	420,060	802,711	15,138	73,630	1,311,540	1,337,855

Note 2:

Other Incomes by Cost Centers

	TRWGen	TRWLife	XmasGen	XmasLife	2014 Total	2013 Total
Interest on IBD	11,073	97,665		1,758	110,496	105,444
Hire of jack	150				150	250
sundry income	1,044				1,044	5,291
Xmas house rent	413				413	715
Annual Commission	26,655				26,655	20,144
cancellation fee	218				218	-
claims income	7,039				7,039	7,665
Quotation fees	112				112	371
Gain on Disposal (Sale of Fixed Asset)	3,519				3,519	-
ID Card		3610			3,610	1,690
commission revenue		8,923		442	9,365	8,309
Account charge		2,446			2,446	270
Life Pledge fees		40			40	270
Admin & Waiver Charges		8,511		815	9,326	13,391
life premium trf to xmas branch		(53,750)			(53,750)	(42,960)
Life Statement fee					-	21
Printing & Stationary			1		1	
Xmas Life Outstanding				610	610	
Sub-Total	50,222	67,444	1	3,625	**121,292**	**120,871**

Note 3:

COST CENTER DETAIL- EXPENSE						
	TRWGen	TRWLife	XmasGen	XmasLife	2014 Total	2013 Total
Staff Expense						
Wages & Salaries	213,765		20,256		234,021	214,644
KPF Expenses	16,204		1,519		17,723	16,534
Leave Grant	18,265		1,500		19,765	19,987
Overtime	9,257				9,257	8,375
Temporay Assistance	2,289				2,289	5,995
Bonus & Allowance	4,113		4,704		8,817	5,999
Training Expense	4,043				4,043	1,808
House Rent Subsidy	11,199				11,199	16,224
Staff Uniform	2,554				2,554	250
Staff Redundancy	8,030				8,030	0
Total Staff Expense	**289,719**	**-**	**27,979**	**-**	**317,698**	**345,677**
Travelling & Transport						
Travel Local	8,987	-	447	-	9,434	8,622
Travel Overseas	20,236	-	-	-	20,236	5,674
MV Running Cost	12,587	-	2,180	-	14,767	13,201
Total travel & transport	**41,810**	**-**	**2,627**	**-**	**44,437**	**47,064**
Promotion Expense						
Advetising	291				291	3,748
Donations	100	-	100	-	200	300
Promotions	1,993	-	1,250	-	3,243	3,142
Total Promotion expense	**2,384**	**-**	**1,350**	**-**	**3,734**	**7,190**
Fees & Charges						
Reinsurance/Brokerage fee	5,000				5,000	20,000
Membership fees	300				300	150
Premium Refund	8,456				8,456	2,360
Bank Charges	1,798	1,585	212	383	3,978	4,011
island council rates	366				366	650
Total fees & charges	**15,920**	**1,585**	**212**	**383**	**18,100**	**20,280**

COST CENTER DETAIL- EXPENSE

	TRWGen	TRWLife	XmasGen	XmasLife	Total	
Financial Expense						
Depreciation	18,106	-	2,407	-	20,513	16,379
Bad Debts					-	
Doubtful Debts					-	
Total Finance Expense	**18,106**	**-**	**2,407**	**-**	**20,513**	**16,379**
General & Admin expense						
PUB charges	21,053	-	303	-	21,356	30,661
Telecom charges	14,766		143		14,909	11,005
Printing & Stationery	8,013	-	649	-	8,662	6,444
Postage	80	-		-	80	20
Entertainment	3,788	-	416	-	4,204	1,375
Office Rent	18,057	-		-	18,057	12,000
Board's Expense	13,033	-		-	13,033	16,391
Insurance	14,858	-		-	14,858	20,324
Professional/Audit Fees	3,658	5,276		-	8,934	0
Office Sundries	3,119	-	857	-	3,976	3,868
Repair & Maintenance	12,796	-	2,762	-	15,558	10,654
Catastrophy- Excess	102,394				102,394	0
Life Contribution to Gen	(82,903)	82,903	(2,253)	2,253	-	0
Total General & Admin	**132,712**	**88,179**	**2,877**	**2,253**	**226,021**	**319,330**
Total Operating Expenses	**500,651**	**89,764**	**37,452**	**2,636**	**630,503**	**760,355**

Note 4:

Life Claims

			2014	2013
	TRWLife	XmasLife	Total	Total
Bonus	64,381	1,004	55,071	17,885
Maturities	217,828	13,452	224,603	211,321
Surrender	274,311	17,329	327,845	277,800
Death Claim	21,951	-	18,870	27,567
TOTAL	**578,471**	**31,785**	**626,389**	**534,573**

Note 5:

Cash & Cash Equivalent by Cost Centers						
	TRWGen	TRWLife	XmasGen	XmasLife	**2014 Total**	**2013 Total**
cash & equivalents	113,516	148,095	36,899	74,226	372,736	372,377
Petty cash	472	8	(187)	-	294	451
Undeposited fund	-	90	420	1,655	2,165	76,645
IBD account	951,443	4,745,423		199,473	5,896,339	5,645,844
Payroll cheque account	(6,398)	-	1,207	-	(5,191)	(5,366)
Sub-Total	**1,059,033**	**4,893,617**	**38,340**	**275,354**	**6,266,344**	**6,089,951**

Note 6:

Receivables by Cost Centers						
	TRWGen	TRWLife	XmasGen	XmasLife	**2014 Total**	**2013 Total**
life general account	21,876	-457			21,419	11,183
trade debtors	466,584	1235			467,819	546,040
less prov for doubtful debts	-416,048				-416,048	-416,048
Life Fund A/c TRW	0				0	0
Xmas General Fund	14,372	-10588			3,784	3,784
staff debtors	8,678				8,678	0
Voip telephone					0	0
imprest account					0	19,170
suspense account	0				0	0
staff salary advance	-132	1,268			1,136	13,041
accounts receivable	103				103	10,259
Bounce chq					0	20
Sundry debtors	0	-8763			-8,763	-8,763
Special Imprest	16,320	2850			19,170	0
Sub- Total	111,753	-14,455	0	0	**97,298**	**178,686**

Note 7:

Payables by Cost Centers						
	TRWGen	TRWLife	XmasGen	XmasLife	**2014 Total**	**2013 Total**
Trade Creditors	(63,737)	-			(63,737)	8,493
Reinsurance Payables	201,735				201,735	200,611
Life Client Payables					-	0
Other Payables	(20,432)	23,461	31,761	11,571	46,361	41,017
Provisions	83,739		9,544		93,283	82,783
Sub-Total	201,305	23,461	41,305	11,571	**277,642**	**332,904**

Note 8:

Fixed Assets by Cost Centers

(TrwGen) Fixed Assets

assets	rate	original value	additions	total value	ACC depr 2013	Depre 2014	Acc Depr 2014	NBV 2014	NBV 2013
buildings	5.0%	10,938	-	**10,938**	2,454	547	3,001	7,937	8,484
furniture	25.0%	34,393	8,630	**43,023**	34,393	2,158	36,551	6,473	-
GM furniture	25.0%	11,680	-	**11,680**	11,520	160	11,680	-	160
vehicles	20.0%	175,866	8,156	**184,022**	153,549	6,095	159,644	24,378	22,317
equipment	25.0%	282,813	16,851	**299,664**	272,678	6,747	279,425	20,239	10,135
office improvement	5.0%	18,598	-	**18,598**	18,598	-	18,598	(0)	-
office renovation	5.0%	47,999	-	**47,999**	14,673	2,400	17,072	30,927	33,326
Total		**582,287**	**33,637**	**615,924**	**507,865**	**18,106**	**525,970**	**89,953**	**74,422**

(XmasGen) Fixed Assets

assets	rate	original value	additions	total value	ACC Depr 2013	Depre 2014	Acc Depr 2014	NBV 2014	NBV 2013
buildings	5.0%	27,701		**27,701**	6,324	1,385	7,709	19,992	21,377
furniture	25.0%	4,825		**4,825**	4,447	378	4,825	0	378
vehicles	20.0%	14,969	-	**14,969**	14,969	-	14,969	-	-
equipment	25.0%	13,168	770	**13,938**	10,387	96	10,483	3,455	2,781
office improvement	5.0%	10,937		**10,937**	4,498	547	5,045	5,892	6,438
Total		**71,600**	**770**	**72,370**	**40,625**	**2,406**	**43,031**	**29,339**	**30,974**

TOTAL FIXED ASSETS	**119,292**	**105,396**