REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Kiribati Insurance Corporation
For the Year Ended 31st December 2015

Kiribati National Audit Office
April 2017

KIRIBATI NATIONAL AUDIT OFFICE

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Audit for an impact for the public

INDEPENDENT AUDIT REPORT

To the readers of Kiribati Insurance Corporation For the year ended 31st December 2015

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 2015. The financial statements comprised of:

- Consolidated balance sheet as at 31st December 2015,
- Consolidated profit and loss statement,
- 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 Board of Directors 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 determined 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.

Basis for Adverse Opinion:

- **Presentation issues:**
  - The surplus and retained earnings for the year 2015 still had not been apportioned between shareholders and policy holders. This was the comment raised last audit and KIC should do the apportionment in order to be more compliant with Insurance Industry practice. In doing so the interests of policyholders are protected especially when dividend was declared to the shareholders.
  - Another issue was the estimation of premium at 40% to get Unearned Premium. This was also reported last audit so KICs accounting policy of estimating 40% of premium as 'Unearned Premium needs to be changed to a more correct calculation rather than estimation.
  - The Financials are incorrectly consolidated under IAS 27 have disclosure issues. For KIC, it is correct to apply IAS 14 that deals with Segment Reporting. The Balance Sheet and Profit and Loss Statements may have two broad segments, Life and General (non-=life). Further breakdown of classes of insurance can be depicted in the notes to the FS. (See Art 29 and 30 of the Insurance Act 45A, 1981).

- **We were unable to verify Fixed Assets balance due to the following:**
  - Audit noted the difference in the Formula used by KIC and the one stated on the Accounting Policies attached to the Financial Statement 2015 which is a straight line method.
    - KIC Formula : (NBV + Addition) x rate
    - Straight line method (Accounting Policies):
      (Original Cost + Addition) x Rate
  - Table below shows variances between Audit Calculation and KIC Calculations the result of the differences in formula used as noted above.

Depreciation Calculation variance			
Tarawa General	KIC	Audit Calculation	Variance
Furniture	290	11,120.50	10,830.50
Vehicles	9,180.00	45,984.40	36,804.40
Equipment	1,886.00	76,727.25	74,841.25
			$122,476.20
Xmas General			
Vehicles	1,400.00	5,793.80	4,393.80
Equipment	193	3,484.50	3,291.50
			$7,685.30

- **Trade Debtors**
    - There was a variance of $19,196 detected between trade debtors as per the account and trade debtors listing.

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 for the year ended 31 Dec, 2015, **DO NOT** give a true and fair view, in accordance with Generally Accepted Accounting practice in Kiribati. An adverse opinion was therefore issued on the financial statements.

The audit was completed on 26 Apr, 2017 and is the date at which our opinion is expressed.

Report on Legal and other Regulatory Requirements

According to the SOE Act, 2012, KIC is required to submit its **Audited** Financial Statements to the responsible Minister within three months after balance date. KNAO received KICs Financial Statement for year ended 31st Dec, 2015 on 31 March 2016 therefore indicated KICs non-compliance to Sec. 20 of SOE Act, 2012. Financial Statements should be submitted to the audit well in advance before 31st March each year so there is sufficient time to carry out and complete the audit before the due date.

Independence

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

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

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Mrs Matereta B Raiman

Auditor General

Kiribati National Audit Office

KIRIBATI INSURANCE CORPORATION

(KIC)

ANNUAL ACCOUNT

2015

"Insure to Secure"

Kiribati Insurance Corporation (KIC)
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Bairiki, Tarawa
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March 2016

1. INTRODUCTION

The format of the 2015 Annual Account is basically the same as last year's report except for a few changes as suggested by the KIC Board of Directors and the Kiribati National Audit Office (KNAO) during their 2014 auditing.

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 2015.

……………………………

Tony Ueanteiti Vaaia
General Manager

……………………………

Dr. Iete Rouatu
Chairman (Board of Directors)

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2. ACCOUNTING POLICIES

The Corporation is established under the Insurance Act (CAP 45A), 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.
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.

During the 2014 auditing, KNAO suggested that the basis to calculate unearned/earned premium should be on a pro-rata basis and not using the straight 40% which has been used in the past years. This suggestion however is not followed this year because the advice came after the 2014 annual account has been compiled. KIC will adopt the new calculation method in the 2016 account.

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.

Bank reconciliation

As per the Board's resolution, the bank reconciliation is now prepared and presented to the Board on a monthly basis.

KIC Account Consolidation

Apart from the four cost centers accounts there is now a consolidated statement showing the Corporation's account as a whole.

IBD accounts

The existing policy on IBD is to have several IBD accounts but this is now under review.

Life Contribution to General account

10% of the life premium is transferred to the general insurance business to cover for the operational costs.

3. HIGHLIGHTS OF 2015 ACCOUNT

Profitability

As shown in the Profit and Loss account, the operating profit of the Corporation in 2015 is $228,430 which is almost twice that of last year's profit. However after adjustments (PPI) have been made the profit increased to $268,639. Such adjustments have been approved by the Board. (Refer to Board Minutes S23/15 dated 9 Dec 2015 and SO6/16 of 22 Mar 2016)

The profit target as per the 2015 estimate is $215,210 but the actual profit before PPI achieved is $228,430 which is $13,220 more than the estimate.

Expense against Budget

Whilst there is no supplementary proposal during the year there is a virement made in November 2015. By the end of the year the general business for both TRW and Xmas shows an overall savings of $24,456. In the life business there is also major savings of $61,368 and the bulk comes from the unpaid maturity claims.

Shareholder's Fund

KNAO has recommended that KIC equity should be allocated to Policyholders and the government. However this is difficult to do and a TA is required to give advice on this.

4. PROFIT & LOSS STATEMENT

KIRIBATI INSURANCE CORPORATION

CONSOLIDATED PROFIT & LOSS STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015	2014
Net Premium Income	1	1,366,663	1,311,540
Add Other Income	2	171,301	121,292
Total Income		1,537,964	1,432,831
Less Expense	3		
Staff expense		319,106	317,699
Travelling & Transport		41,181	44,436
Promotion		8,670	3,735
Fees & charges		33,668	18,099
Financial expenses		85,825	20,513
General & Admin		210,828	226,021
Total Operating expense		**699,278**	**630,502**
Life Claims	4	610,256	626,389
Net Profit/(Loss) before PPI		**228,430**	**175,940**
Prior Periods Adjustments	5	40,210	(11,774)
Net Profit/(Loss) after PPI		**268,639**	**164,165**
Dividend[1]		-	-
Retained Earnings		**268,639**	**164,165**

[1] SOEMAU (Planning Office, Finance) has proposed an annual dividend of 50% from the net profit of each SOE. This is rather a high payment to KIC position given that the level of liabilities is very high on compensations, refunds, maturities, and bonuses. KIC has paid up huge amount of money to the Government through taxes on surrendered policies and on reinsurance payments. The Board has agreed that 5% is reasonable. (Refer Board Minute S01/15, date 8 Jan 2015)

5. BALANCE SHEET

KIRIBATI INSURANCE CORPORATION
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015

		2015	2014
Current Assets			
Cash and Cash Equivalent	6	6,590,002	6,266,344
Receivables	7	85,158	97,298
Total Current Assets		6,675,161	6,363,643
Current Liabilities			
Payables	8	371,295	277,641
working capital		6,303,865	6,086,001
Add Long Term Assets	9	170,067	119,292
Net Assets		**6,473,932**	**6,205,293**
Represented by:			
Shareholder's Fund			
Capital		3,584,767	3,584,767
Retained Earnings		2,620,527	2,456,362
Current Retained Earnings		268,639	164,165
Net Equity		**6,473,932**	**6,205,293**

6. CASH FLOW STATEMENT

KIRIBATI INSURANCE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2015

		2015	2014
Cash Flow from Operations			
Receipt from clients		1,466,583	1,473,587
Interest received on IBD		106,720	110,496
Payments to staff and suppliers		(587,796)	(695,146)
Payment to clients		(610,256)	(681,653)
Net cash flow from Operating activities		**375,251**	**207,284**
Cash Flow from Investing Activities			
Sale of Fixed Assets		17,010	3,519
Purchase of long term assets		(68,603)	(34,409)
Net Cash from Investing activities		**(51,593)**	**(30,890)**
Cash Flow from Financing Activities			
Dividend paid		-	-
Net Cash from Financing Activities		-	-
Net Cash Flow		**323,658**	**176,393**
Opening Cash and Bank		6,266,344	6,089,951
Closing Cash and Bank		**6,590,002**	**6,266,344**

7. NOTES FORMING PART OF THE FINANCIAL STATEMENTS- 2015

Note 1: Net Premium Income

	TRWGen	TRWlife	XmasGen	XmasLife	2015 Total	2014 Total
NET PREMIUM INCOME	471,628	814,046	49,584	31,405	1,366,663	1,311,540

Note 2: Other Incomes

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
Interest on IBD	9,656	95,198		1,866.43	106,721	110,496
Hire of jack	100				100	150
sundry income	1,249				1,249	1,044
Xmas house rent	275				275	413
Annual Commission	23,843				23,843	26,655
cancellation fee	1,253				1,253	218
claims income					-	7,039
Quotation fees	163				163	112
Gain on Disposal (Sale of Fixed Asset)	10,500		6,510		17,010	3,519
ID Card		1,175			1,175	3,610
commission revenue		8,425		399.40	8,825	9,365
Account charge	76.9	2,352		84.00	2,513	2,446
Life Pledge fees		35			35	40
Admin & Waiver Charges		6,608		1,297.00	7,905	9,326
life premium trf to xmas branch					-	(53,750)
Life Statement fee		8		126.00	134	-
Printing & Stationary			102		102	1
Xmas Life Outstanding					-	610
Sub-Total	47,115	113,801	6,612	3,773	171,301	121,292

Note 3: Expenses

COST CENTER DETAIL - EXPENSE

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
Staff Expense						
Wages & Salaries	204,050		28,745		232,795	234,021
KPF Expenses	15,567		2,156		17,723	17,723
Leave Grant	33,750		1,500		35,250	19,765
Overtime	6,975				6,975	9,257
Temporay Assistance	3,513				3,513	2,289
Bonus & Allowance	4,962		590		5,552	8,817
Training Expense	4,665				4,665	4,043
House Rent Subsidy	12,325				12,325	11,199
Staff Uniform	309				309	2,554
Staff Redundancy	-				-	8030
Total Staff Expense	**286,116**	**-**	**32,991**	**-**	**319,106**	**317,698**
Travelling & Transport						
Travel Local	19,438		460		19,898	9,434
Travel Overseas	6,896				6,896	20,236
MV Running Cost	10,974		3,414		14,387	14,767
Total travel & transport	**37,308**	**-**	**3,874**	**-**	**41,181**	**44,437**
Promotion Expense						
Advetising	1,147		383		1,530	291
Donations	300		83		383	200
Promotions	6,553		204		6,757	3,243
Total Promotion expense	**8,000**	**-**	**670**	**-**	**8,670**	**3,734**

COST CENTER DETAIL- EXPENSE

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
Fees & Charges						
Reinsurance/Brokerage fee	10,000				10,000	5,000
Membership fees	160				160	300
Premium Refund	19,851				19,851	8,456
Bank Charges	1,793	1,331	203	330	3,657	3,978
island council rates					-	366
Total fees & charges	**31,804**	**1,331**	**203**	**330**	**33,668**	**18,100**
Financial Expense						
Depreciation	14,303		3,525		17,828	20,513
Bad Debts	-				-	0
Contribution to Doubtful Debt	67,997				67,997	0
Total Finance Expense	**82,300**	**-**	**3,525**	**-**	**85,825**	**20,513**
General & Admin expense						
PUB charges	43,294		-		43,294	21,356
Telecom charges	14,379		2,565		16,943	14,909
Printing & Stationery	5,364		539		5,903	8,662
Postage	30				30	80
Entertainment	1,438		2,523		3,961	4,204
Office Rent	26,536				26,536	18,057
Board's Expense	21,561				21,561	13,033
Insurance	19,221				19,221	14,858
Professional/Audit Fees		9,170	100		9,270	8,934
Office Sundries	1,657		1,154		2,810	3,976
Repair & Maintenance	9,320		4,478		13,798	15,558
Catastrophy- Excess	47,500				47,500	102,394
Life Contribution to Gen	(84,745)	84,745	(3,022)	3,022	-	0
Total General & Admin	**105,554**	**93,915**	**8,337**	**3,022**	**210,828**	**226,021**
Total Operating Expenses	551,081	95,246	49,600	3,352	699,278	630,503

Note 4: Life claims paid

			2015	2014
	TRWLife	XMASLife	Total	Total
Bonus	64,381	1,004	65,385	55,071
Maturities	217,828	13,452	231,280	224,603
Surrender	274,311	17,329	291,640	327,845
Death Claim	21,951	-	21,951	18,870
TOTAL	**578,471**	**31,785**	**610,256**	**626,389**

Bonus: The additional sum that the policyholder will get during the term of the life insurance policy or at maturity stage.
Maturity: Payment to policyholders when they reach the maturity stage.
Surrender: Payment to policyholders when they choose to terminate or cancel their life policies have to face charges and fees for the termination of life insurance contract.
Death claims: payment to policyholders who happen to die during the duration of the life policy.

Note 5: Prior Period Items

	TRWGen	TRWLife	XMASGen	XMASLife	**2015**	**2014**
PPI - Income	58,773	20,614	4,948	5,245	89,580	-
PPI - Expense	(31,043)	(8,625)	(2,870)	(6,834)	(49,372)	(11,774)
TOTAL	**27,731**	**11,990**	**2,078**	**(1,589)**	**40,210**	**(11,774)**

Note 6: Cash & Equivalent

Cash & Cash Equivalent by Cost Centers

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
cash & equivalents	110,310	257,283	75,123	32,917	475,634	372,736
Petty cash	373	767	(187)	-	954	294
Undeposited fund	3,204	2,290	250	(195)	5,549	2,165
IBD account	961,099	4,910,622	-	241,340	6,113,060	5,896,339
Payroll cheque account	(6,401)	-	1,207		(5,194)	(5,191)
Sub-Total	1,068,585	5,170,961	76,394	274,062	6,590,002	6,266,344

Note 7: Receivables

Receivables by Cost Centers

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
life general account	30,118		(6,002)		24,116	21,419
trade debtors	516,309		1,235		517,544	467,819
Less provision for doubtful debt	(484,045)				(484,045)	(416,048)
Xmas General Fund	14,372		(10,588)		3,784	3,784
staff debtors	8,537				8,537	8,678
imprest account			2,850		2,850	-
suspense account	0				0	(0)
staff salary advance	-132		1,268		1,136	1,136
accounts receivable	103				103	103
Bounce chq	3,580				3,580	-
Sundry debtors	0		-8763		-8,763	(8,763)
Special Imprest	16,316				16,316	19,170
Sub- Total	**105,159**	**0**	**-20,000**	**0**	**85,158**	**97,298**

Note 8: Payables

Payables by Cost Centers

	TRWGen	TRWLife	XmasGen	XmasLife	2015 Total	2014 Total
Trade Creditors	(36,906)				(36,906)	(63,737)
Reinsurance Tax Payables[2]	193,829		28,222		222,051	201,735
Life Client Payables		(0.96)			(1)	0
Other Payables	(149)	9,670	3,789	3,397	16,706	46,361
Income Tax payable	3,980		1,069		5,049	
Life Witholding tax	5,237	25,017		8,429	38,683	
Provisions	138,976		9,544		148,520	93,283
Payroll liabilities	(22,808)				(22,808)	
Sub-Total	**282,160**	**34,686**	**42,624**	**11,826**	**371,295**	**277,642**

[2] Inclusive in reinsurance tax is a pro-longed amount of $178,525.59 of over 6 years which should be written off from the record. However the process is pending as the tax office needed time with its Board to consider this.

Note 9: Fixed Assets

Fixed Assets by Cost Centers

(TrwGen) Fixed Assets									
assets	rate	original value	additions	total value	ACC depr 2014	Depre 2015	Acc Depr 2015	NBV 2015	NBV 2014
buildings	5.0%	10,938	-	**10,938**	3,001	547	3,548	5,390	7,937
furniture	25.0%	43,323	1,159	**44,482**	36,551	290	36,841	5,578	6,473
GM furniture	25.0%	11,680	-	**11,680**	11,680	-	11,680	-	-
vehicles	20.0%	184,022	45,900	**229,922**	159,544	9,180	168,724	62,403	24,378
equipment	25.0%	299,364	7,545	**306,909**	279,425	1,886	281,311	28,355	20,239
office improvement	5.0%	18,598	-	**18,598**	18,598	-	18,598	(0)	-
office renovation	5.0%	47,999	-	**47,999**	17,072	2,400	19,472	28,528	30,927
Total		615,923	54,604	670,527	525,871	14,303	540,174	130,254	89,954

(XmasGen) Fixed Assets									
assets	rate	original value	additions	total value	ACC Depr 2014	Depre 2015	Acc Depr 2015	NBV 2015	NBV 2014
buildings	5.0%	27,701		**27,701**	7,709	1,385	9,094	18,607	19,991
furniture	25.0%	4,825		**4,825**	4,825	-	4,825	0	-
vehicles	20.0%	14,969	14,000	**28,969**	14,969	1,400	1,400	12,600	-
equipment	25.0%	13,938	-	**13,938**	13,264	193	10,676	3,262	3,455
office improvement	5.0%	10,937		**10,937**	5,045	547	5,592	5,345	5,892
Total		72,369	14,000	86,369	43,031	3,525	31,587	39,813	29,338
TOTAL FIXED ASSETS								170,067	119,292