REPORT

OF

AUDITOR GENERAL

KNAO

AUDIT FOR AN IMPACT FOR THE PUBLIC

ON THE ACCOUNTS OF KIRIBATI GOVERNMENT ANNUAL ACCOUNT

PART 2: STATEMENTS I TO XIX FOR THE YEAR ENDED

31 DECEMBER 2015

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

File Ref: MCB 44/1 **Date: 15th December, 2016**

Honourable Tebuai Uaai
Speaker of the House of Parliament
Maneaba ni Maungatabu
Ambo
Tarawa

Dear Honourable Speaker,

I have the honour to transmit herewith the Audit Report on the Government Annual Accounts for the year ended 2015 to the House of Parliament, to be laid before the House in accordance with Section 114(3) of the Constitution.

I have included matters, which relate to the performance of my duties and the exercise of my powers under the Public Finance (Control and Audit) Ordinance 1976.

The report comprised of the following parts:

- Part 1: Revenue and expenditure: Government of Kiribati Ministries, Offices, Courts and
- Part 2: Statements I to XIX

As required by Section 114(3) of the Constitution, I have delivered copies of the reports to His Excellency Te Beretitenti and the Minister of Finance and Economic Development.

Yours faithfully,

……………………………
Matereta B Raiman
Auditor General

TABLE OF CONTENTS

A) ACRONYMS

ADB – Asian Development Bank
DNE – Deceased National Estimate
FR – Financial Regulation
FY – Financial Year
GL – General Ledger Report
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 and Industry Cooperative
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
PAC – Public Account Committee
PSC – Public Service Committee
PSO – Public Service Office
PV – Payment voucher
RBC – Remittance between chest
RERF – Revenue Equalization Reserve Fund
UN – United Nations
VAT – Value Added Tax

B) EXECUTIVE SUMMARY

i) SCOPE AND METHODOLOGY

As was the case in our previous audit, 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. However, throughout the year 2015 the government had revised its approved expenditure budget to the sum of **$136,208,317** (original budget was **$116,907,878**). The actual expenditure incurred in 2015 excluding the contribution to the RERF had reached the amount of **$133,231,079** an amount of which when compared with the total revised budget of **$136.2m** resulted in a net saving of **$2.18%** over the budget. However, it was pleasing to note a significant increase in Government Net Saving of **36.81%** when comparison is made with last year's net saving of **$1.88m.** The net saving reported this year by Ministries had reached the sum of **$2.9m (or 2.18%)** over the total budget and that also included the unused budget provisions for Other Government Expenses.

Further, it was also noted a substantial increase in Government's revenue by **8.62%** when comparison is made with previous year's total revenue due to the notable improvement in the revenue collection from fishing license including other government major revenues (section 3.1.1 refers). This year the government had exceeded its revenue estimate budget by **55.3%** over the estimate budget and therefore management should be commended for such remarkable improvement.

b) Development Fund (Receipts and Payment)

The total development fund receipts in 2015 had increased to $52,212,972.20 (2014:$35,784,375.47) while the expenditure had also increased to $47,519,405.86 (2014: $25,938,157.63) giving a total net balance of $4,693,566.34. The total development fund at the year-end 2015 would be $25,931,831.54 when adding the closing balance reported in 2014 of $21,238,265.20. Gratitude should be extended to overseas donors for their continued support to the Government of Kiribati.

c) Revenue Equalization Reserve Fund (RERF)

It is also pleasing to note that 2015 is the first year of record the government did not withdraw any funds from the RERF and instead injected the sum of $175m as the contribution to the RERF. The classification by the Accounts Division and NEPO was slightly different with regards to payments made (injections) to the RERF (see statement 3.16: RERF).

The split of the $175m paid into the fund in 2015 is RERF (HSBC $30m, NICAM $20m), Cash Trust Fund (State Street $80m) and $45 would be reflected in the subsequent year which is 2016 as the ANZ Bank paid out monies in small tranches at different dates hence the $45m was in the last payment day or two of the year resulting in not reaching State Street within the current year as expected.

However, NEPO advised that government monies stays at the State Street are not considered as part of the RERF except for HSBC and NICAM.

d) Fishing License Revenue

It is pleasing to note that the dramatic increase of the government revenue in 2015 was again due to the very high fishing license which constitutes about **78.1%** of the total government revenue, which has simply indicated a major improvement in collecting colossal revenue in the sum of **$197.7m** (2014: $141.5m) and therefore all major contributors to this notable achievement should be highly commended.

e) Value Added Tax (VAT)

The VAT collected in 2015, being the second year of implementation, was $14,548,404.47, an increase of $6,121,894.03 over that collected in 2014.

However, when comparing with the collection of the import duty in 2013 the revenue had reached a level of $17,355,654.69. 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 2015 the total estimate budget for employees (i.e. salaries and temporary) was way up to **$38,345,615.19** where as **$37,885,192.17** was reported as the actual expenditure incurred during the year, thus resulted in a net saving of **$460,423.02 or 1.2%** over the total budget.

g) Government Assets Management

As we are aware there is no proper assets register for monitoring and controlling all government assets particularly the government long term assets the absence of which will not make it 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 in a dilapidated stage.

The management over the public assets/resources is crucial for the ability of 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.

iii) FISCAL RESPONSIBILITY

In accordance to Section 39 of the Public Finance (Control and Audit) Act 1976 the Annual Accounts of the Republic of Kiribati should be presented and submitted to the Auditor General within Six Months after the financial year as at 31st December for scrutiny purposes. The 2015 Annual Account was submitted on the **30 June 2016**, which is within the statutory timeframe.

The 2015 annual accounts was 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). Other disclosure requirements that do not form part of the Annual Account include: *Contingent Liability, Arrears of Revenue, Public Debts and Losses of Fund.*

However, the presentation of the 2015 Annual Account was slightly differed from the previous annual account format and had not followed the sequential statement numbering as stipulated under section 40 of CAP 79. The following were changes noted:

- **Statement No XV –** this is normally a statement of Unallocated Stores & Manufacturing Accounts however in 2015 there was no Unallocated Stores & Manufacturing Accounts and instead changed to Development Fund Statement.
- **Statement No XVIII –** this should be Cash in Transit (RBC) statement but the audit found that **No** Cash in Transit (RBC) Statement provided separately in the 2015 Annual Account. Even the index of Statement No XVIII also did not appear in the account.

Therefore, in light of the above anomalies we confirmed that the presentation of the 2015 annual account was not aligned with the list stipulated under CAP 79 Section 40.

Because of the issues repeatedly detected, the position of the 2015 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.

I have to reiterate again that the remedial actions to the issues noted would be the professional implementation of audit recommendations. The public audit by definition is not only an expression of opinion on the financial statement but is also to bring about reforms 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 2015. The preparation and presentation of these 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 these accounts based on my audit as required by Section 114 of the Constitution and Parts V and VI of Cap 79, the Public Finance (Control and Audit) Ordinance 1976 as amended.

We conducted our audit in accordance with the provisions of the Ordinance 1976 and Generally Accepted Auditing Standards to provide reasonable assurance as to whether the accounts are free of material miss-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 and the other matters which are consistent with my understanding of those operations.

The accounts do not purport to reflect the total activity of Government and, as they are prepared essentially on a cash basis, they do not disclose at year end the unpaid commitments. They also do not disclose Government Assets and Liabilities in the hands of Government Owned Entities, Government Fixed Assets and project funds received outside of the Government No. 4 Account nor disclose opening balances of such at the beginning of each fiscal year.

Qualifications

I am unable to satisfy myself as to the accurateness of the 2015 financial statements because of:-

- Under-collection of revenue by some major source of revenue in the sum of $505k (Section 3.1.3 refers)
- Unauthorized spending by Ministries for year ended 31/12/15 amounted to $3.7m (section 3.2.3 refers)
- Unbudgeted and unutilized of approved provisions (section 3.2.7 refers)
- The inclusion of Stabex, Leper Trust Fund and Escrow as these funds were no longer suitable as Special fund accounts (section 3.3 refers)
- The absence of the Bank Audit Certificate requested for the year 2015 (refer to Statement VI)
- 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)
- Significant issues noted under Statement IX: Deposits (refer to section 3.7)

- The overstatement of the Government net worth by the inclusion of Escrow Fund under Statement XI: Investments, and Statement V: Special Fund. This had not been responded in last year audit report hence the purpose of inclusion here. (section 3.3 & 3.9 refers)
- Un-authorized spending of $15.13m, variance noted amounted to $3.29m and the unavailability of supporting documents requested with involves the amount of $998k. (section 3.13 refers)
- And other significant irregularities discovered under Statement XIX RERF (refer to section 3.16)

Qualified Audit Opinion

In my opinion, except for the effects on the financial statements of the matters referred to in the preceding qualification paragraph, the Public Accounts comply with the relevant provisions of the Public Finance (Control and Audit) Ordinance 1976 and are properly drawn up in accordance with the provisions of that Ordinance 1976 and are in accordance with the accounts and records of the Accountant General.

………………………………….
Mrs. Matereta Raiman
Auditor General

C) COMPIANCE 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 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 9.8 states that '*every accounting officer shall maintain a vote ledger so as to show at any time in report of every sub-head of a Head, as applicable, under his control ...*'

- 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).

D) ANNUAL SCORECARD FOR FY 2015

STATEMENT	GL CODE	ASSETS	2014	2015	2014 RATING	2015 RATING
XI	V	**Total Investment**	**691,513,817.10**	**849,465,605.29**	C	B
VII	M	**Total Bank Accounts & Cash**	**117,641,925.76**	**67,927,213.20**	B	C
VIII		**ADVANCES**				
VII	J	Other Advances	829,171.73	830,371.73	D	D
VII	K	Sundry Advances	-412,492.10	-387,182.72	D	D
VII	L	Imprest and Salary Advance	**10,718,866.72**	**11,674,504.73**	C	C
		Total Advances	**11,135,546.35**	**12,117,693.74**		
	I	**Total Telmo Paid**	**217,551,011.12**	**241,690,807.83**	C	C
XVI	Z	**Total Suspense Account**	**4,885,005.56**	**4,879,902.28**	D	D
		Net Total Assets	**1,042,727,305.89**	**1,176,081,222.34**		
LESS		**LIABILITIES**				
IX	S	Deceased Native Estates	-1,181,224.36	-1,020,977.67	D	D
IX	Q	Salary Allotments	-21,722.35	-21,517.35	C	C
IX	O	Sundry Deposits	863,582.04	-5,115,516.81	C	D
IX	P	Telmo Received	-218,345,450.54	-236,110,163.03	D	D
IX	T	SAYE	-10,698.15	-12,901.65	C	C
		Total Liabilities	**-218,695,513.36**	**-242,281,076.51**		
		NET TOTAL ASSETS	**824,031,792.53**	**933,800,145.83**		
		Consolidated Fund				
II & III	E	Recurrent Expenditure	130,254,787.84	308,231,077.11	C	C
II & III	C	Recurrent Revenue	-198,239,057.09	-253,315,089.80	C	B
		Development Fund				
XVI	H	Development Expenditure	25,938,157.63	47,519,405.86	C	C
XVI	N	Development Revenue	-35,784,375.47	-52,212,972.20	C	C
V	F	Special Fund	-746,201,305.45	-984,022,566.81	C	C
		Grand Total	**-824,031,792.54**	**-933,800,145.84**		

E) OVERVIEW

This report[1] 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 XIX*** aligned with the contents of the Annual Account 2015 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 line of our audit work.

Most of the financial issues highlighted in this report are neither repetitive indicating non-compliance nor implementation of recommendations by management. We are concerned of the effect these 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 reconciliations the absence of which would result in drastic drain in government coffer.

Government through its MFED management arm is primarily responsible for resolving and ensuring implementation of recommendations promptly and effectively by all of its accounting officers stationed at different Ministries. 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 results realized, hence the areas of concentration during each immediate subsequent year audit.

[1] At the time of completion and tabling of this audit report, PAC's enquiry on the 2014 Part 2 Audit report has yet to

1) Statement I: Balance Sheet 2014

Findings and Analysis:

1.1 GOK Assets and Liabilities

As required under 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 further scrutiny purposes. At the end of this fiscal year 2015 the Balance Sheet for Government of Kiribati (GOK) held the following assets and liabilities.

Table 1.1 A: GOK Assets and Liabilities (2013-2015)

Description	FY 2013	FY 2014	FY 2015	14 inc/(dec)	15 inc/(dec)
ASSETS					
INVESTMENT					
RERF	660,907,092.58	678,971,072.93	837,109,589.96	18,063,980.35	158,138,517.03
Land in Fiji	930,180.00	11,923,404.00	9,300,180.00	10,993,224.00	- 2,623,224.00
PIPA Trust fund	2,623,224.00	-	2,623,224.00	- 2,623,224.00	2,623,224.00
Other investment	31,809,243.10	619,340.17	432,611.33	- 31,189,902.93	- 186,728.84
	696,269,739.68	**691,513,817.10**	**849,465,605.29**	**- 4,755,922.58**	**157,951,788.19**
CASH					
Cash at bank and on hand	11,493,761.89	116,630,690.27	66,317,287.20	105,136,928.38	- 50,313,403.07
Cash in transit	601,812.23	1,011,235.49	1,609,926.00	409,423.26	598,690.51
	12,095,574.12	**117,641,925.76**	**67,927,213.20**	**105,546,351.64**	**- 49,714,712.56**
ADVANCES					
Other Advances	-	829,171.73	830,371.73	829,171.73	1,200.00
Imprest and Salary Advances	9,037,051.57	10,718,866.72	11,674,504.73	1,681,815.15	955,638.01
Sundry Advances	- 426,586.53	- 412,492.10	- 387,182.72	14,094.43	25,309.38
Total Advances	**8,610,465.04**	**11,135,546.35**	**12,117,693.74**	**2,525,081.31**	**982,147.39**
Telmos Paid		217,551,011.12	241,690,807.83	217,551,011.12	24,139,796.71
Suspense account	4,885,005.56	4,885,005.56	4,879,902.28	-	- 5,103.28
TOTAL ASSETS	**721,860,784.40**	**1,042,727,305.89**	**1,176,081,222.34**	**320,866,521.49**	**133,353,916.45**
LIABILITIES					
DEPOSITS					
Deceased Native Estates	- 1,030,032.14	- 1,181,224.36	- 1,020,977.67	- 151,192.22	160,246.69
Salary Allotments & SAYE	- 28,892.75	- 32,420.50	- 34,419.00	- 3,527.75	- 1,998.50
Sundry deposits	3,819,000.90	863,582.04	- 5,115,516.81	- 2,955,418.86	- 5,979,098.85
Telmos Received	- 4,366,246.35	- 218,345,450.54	- 236,110,163.03	- 213,979,204.19	- 17,764,712.49
Total	**- 1,606,170.34**	**- 218,695,513.36**	**- 242,281,076.51**	**- 217,089,343.02**	**- 23,585,563.15**
NET TOTAL ASSETS	**720,254,614.06**	**824,031,792.53**	**933,800,145.83**	**103,777,178.47**	**109,768,353.30**

(Source: GOK Annual Accounts: 2013-2014)

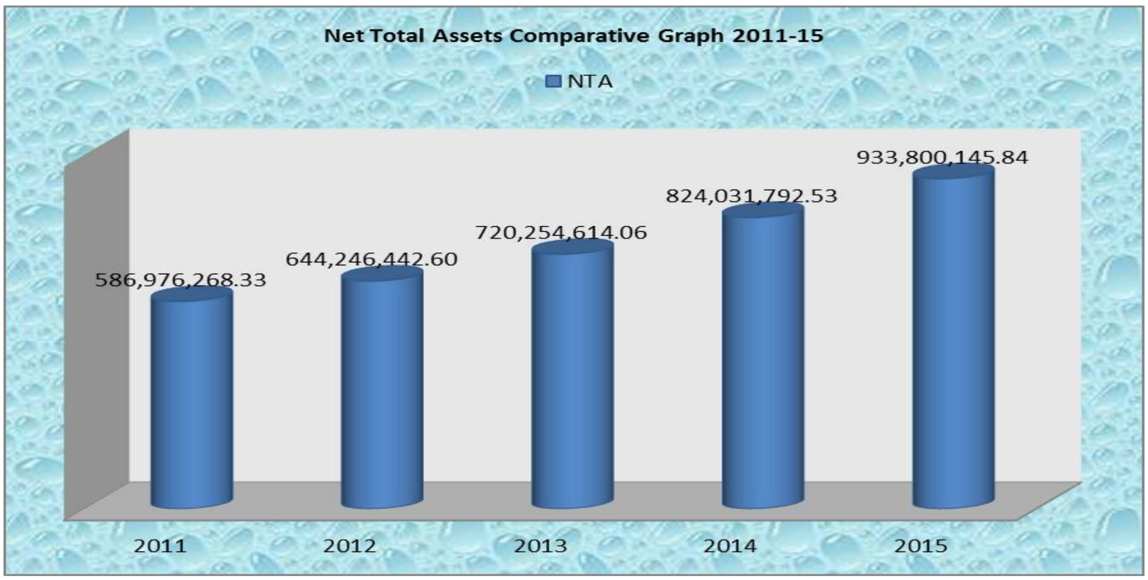
1.2 GOK Net Total Assets (NTA)

The table/graph below shows balances of fund which represent the GOK Assets and Liabilities and the total of which details the Realised Net Total Assets as at December 31st 2015.

Table 1.1 B: GOK Net Total Assets.

Description	2011	2012	2013	2014	2015	14 inc/(dec)	15 inc/(dec)
Consolidated Fund	- 10,237,696.38	11,282,176.52	39,461,269.92	107,445,128.42	52,529,141.11	67,983,858.50	- 54,915,987.31
Development Fund	16,187,943.33	15,016,044.24	11,392,047.36	21,238,265.20	25,931,831.54	9,846,217.84	4,693,566.34
RERF	578,939,104.66	613,875,383.32	663,530,316.58	689,964,296.93	837,109,589.96	26,433,980.35	147,145,293.03
Special Funds (Land Equity & Stabex & Other Funds)	2,086,916.72	4,072,838.52	5,870,980.20	5,384,101.98	18,229,583.23	- 486,878.22	12,845,481.25
Total	**586,976,268.33**	**644,246,442.60**	**720,254,614.06**	**824,031,792.53**	**933,800,145.84**	**103,777,178.47**	**109,768,353.31**

Figure 1 A: Comparative Graph for year's ended 2011 – 2015 NTA.



It is evident from the above graph that for the five consecutive years the Net worth (NTA) of the Government of Kiribati had kept escalating significantly over the fiscal years by 9%, 11%, 13% and 12% respectively. I would say the major contributor is the revenue from the fishing licence that had saved withdrawals from the RERF and had allowed it to accumulate interests was further enhanced by an injection of $175m made to the RERF[2].

Note: The amount injected to the RERF was $175m in the split of RERF (HSBC $30m, NICAM $20m), Cash Trust Fund (State Street $80m) and the $45m will appear in State Street account in 2016.

[2] Details of RERF are further discussed in the last section of this Report.

2) Government Recurrent (Consolidated Fund) Net Balance – FY 2015

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 31/12/2015

Table 2.1 A: Balance of Consolidated Fund as at 31/12/2015.

Description (Title)	**2014**	**2015**
Balance brought forward	39,460,859.18	107,445,128.42
Add:		
Total Revenue collected	198,239,057.09	253,315,089.80
Sub total	237,699,916.27	360,760,218.22
Less:		
Total Expenditure incurred	**- 130,254,787.85**	**- 308,231,077.11**
Consolidated balance at end of year	**$ 107,445,128.42**	**$ 52,529,141.11**

(Source: GOK Annual Account 2014 & 2015)

Based on the table above, it is apparent the closing balance of the Consolidate Fund for this fiscal year 2015 of $52m falls below the closing balance of year 2014 in the sum of $107m. This was mainly due to the increase in expenditure level in 2015 by **2.36** times that incurred in 2014 despite the increase in revenue of **1.27** times over that collected in 2014.

3) The Qualifications stated above were mainly caused from the following statements as follow:

3.1) Statement II & IV: Major Recurrent Revenue 2015

Findings and Analysis:

3.1.1 Estimate Budget Revenue against Actual Revenue for year ending 2014-15

Table 3.1A: Comparative Table Estimate against Actual (2014-15)

REVENUE	2014		2015		14 Variance	15 Variance
Title	**Estimate**	**Actual**	**Estimate**	**Actual**	**Act. vs Est.**	**Act. Vs Est.**
Fishing license Revenue	38,000,000.00	141,573,749.90	75,000,000.00	197,754,162.56	103,573,749.90	122,754,162.56
Fish transhipment fees			500,000.00	9,225,168.24		8,725,168.24
Import duty	4,200,000.00	4,006,320.28	-	-	- 193,679.72	-
RERF	-	**10,000,000.00**	-	-	10,000,000.00	-
Company taxation	5,500,000.00	4,478,413.33	5,600,000.00	7,461,396.18	- 1,021,586.67	1,861,396.18
Hotel tax	21,000.00	63,030.43	-	-	42,030.43	-
Excise tax	3,600,000.00	4,465,676.97	5,500,000.00	6,173,438.70	865,676.97	673,438.70
Personal tax	5,600,000.00	6,963,361.86	7,300,000.00	6,794,496.79	1,363,361.86	- 505,503.21
VAT	7,950,000.00	8,426,510.44	13,200,000.00	14,548,404.47	476,510.44	1,348,404.47
Dividends	1,100,000.00	1,239,536.00	1,200,000.00	1,262,466.68	139,536.00	62,466.68
Interest on Consolidated Fund	-	313,705.95	-	88,493.69	313,705.95	88,493.69
Nasda (Downrange)	700,000.00	646,877.00	646,967.00	646,877.03	- 53,123.00	- 89.97
Open ship registration fee	550,000.00	725,207.35	680,000.00	710,816.75	175,207.35	30,816.75
Nasda (Jaxa Air Service)	600,000.00	838,264.11	860,234.00	1,071,092.47	238,264.11	210,858.47
Sub Total	**67,821,000.00**	**183,740,653.62**	**110,487,201.00**	**245,736,813.56**	115,919,653.62	135,249,612.56
Ministry Revenue (including Budget Support)	2,441,770.00	14,498,403.47	2,770,275.00	7,578,276.24	12,056,633.47	4,808,001.24
Total	**70,262,770.00**	**198,239,057.09**	**113,257,476.00**	**253,315,089.80**	**127,976,287.09**	**140,057,613.80**
Adjusted Balance (excluding RERF)		**188,239,057.09**		**253,315,089.80**		

(Source: 2014 & 2015 Annual Account, MFED)

As reflected above, the actual level of revenue collected in this financial year 2015 of $253m was way up by over $65m or 35% over that collected in 2014. As noted in the 2015 annual account the dramatic increase noted in 2015 was basically due to the very high fishing license ($197.7m). It also imperative to note that fishing license fluctuates over the years and this can easily decline in subsequent years therefore cautious and prudent fiscal policy should be frequently exercised.

Furthermore it is worth noting that 2015 is the first year of record the Government did not withdraw any funds from the RERF and instead injected $175m in the split of $50m (RERF) and $125m (Cash Trust Fund i.e State Street ($80m: 2015 $45m: 2016). Therefore the Ministries that had contributed to such remarkable achievement should be highly praised and, for continuity, to be encouraged to exert same effort in future years.

As could also be sighted from the table above only two of the total major revenue outputs that incurred deficits therefore the Ministries concerned should ensure the budget estimates for future years are aligned with the revenue they expect to collect and/or encourage the concerned Divisions to exert efforts in future so to meet their allocated targets.

3.1.2 Under-collection of Revenues by Ministries – FY 2015

Findings and Analysis:

No.	Ministry Name	Revised Revenue Estimate	Actual Revenue	Variance
1	OPL	1,400.00	304.00	- 1,096.00
3	KPPS	67,200.00	56,183.00	- 11,017.00
4	MFAI	105,000.00	95,042.00	- 9,958.00
5	MIA	9,000.00	5,644.00	- 3,356.00
6	MELAD	192,100.00	118,173.00	- 73,927.00
7	MNM	12,850.00	3,093.00	- 9,757.00
9	KNAO	66,500.00	40,500.00	- 26,000.00
10	OAG	750.00	355.00	- 395.00
13	MOE	301,300.00	257,570.00	- 43,730.00
19	MLPID	889,804.00	486,877.00	- 402,927.00
	Total	**1,645,904.00**	**1,063,741.00**	**- 582,163.00**

The above table depicts the number of Ministries that had failed to collect the budgeted revenue thus incurring a deficit of over **$582k.** The number of Ministries involved is almost half the total population of 22 Ministries. These Ministries should ensure their budget estimates are aligned with the level of revenue they expect to collect and/or to exert efforts so to exceed their revenue targets. The under collections noted above would have affected the RERF had there not been excessive collections achieved in this fiscal year.

3.2) Statement II & IV: Expenditure

Findings and Analysis:

3.2.1 Summary expenditure table by Ministries for years ended 2013-2015

In accordance with 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. Illustrated below is the Government Expenditure against Budget incurred during the year ended 2013 up to 2015.

Table 3.2A: Summary of expenditure by Ministries (2013 - 2015)

EXPENDITURE		FY 2013		FY 2014		FY 2015		14 Variance	15 Variance
Code	Title	Estimate	Actual	Estimate (Rev)	Actual	Estimate	Actual	Under/(Over)	Under/(Over)
E02	**LCDF**	7,436,223	7,898,303	9,202,983	9,202,983	23,150,425	23,150,424	- 0	1
E08	**OPL**	-	-	-	-	326,502	403,843	-	- 77,341
E09	**OB**	1,350,020	1,541,027	1,493,632	1,700,326	1,708,761	1,797,285	206,694	- 88,524
E10	**PSO**	600,785	622,341	600,987	666,702	602,290	637,668	65,715	- 35,378
E11	**JUDICIARY**	1,650,467	1,568,448	1,921,899	1,887,620	1,650,030	1,654,347	- 34,279	- 4,317
E12	**KPPS**	7,030,624	6,927,840	7,116,854	7,136,000	7,262,784	7,329,687	19,146	- 66,903
E13	**PSC**	233,691	255,030	227,901	238,608	241,818	256,698	10,707	- 14,880
E14	**MFAI**	1,835,758	1,894,020	2,132,266	2,570,157	2,178,571	2,745,375	437,891	- 566,804
E15	**MIA**	2,895,618	2,969,234	2,300,998	2,349,336	2,229,210	2,208,340	48,338	20,870
E16	**MELAD**	2,556,320	2,739,280	2,591,743	2,738,280	2,999,994	2,999,705	146,537	289
E17	**MM**	3,058,932	3,212,629	2,864,380	2,977,971	3,066,410	2,809,029	113,591	257,381
E18	**MCIC**	1,228,071	1,163,803	1,279,920	1,276,641	1,480,721	1,379,473	- 3,279	101,248
E19	**KNAO**	726,750	700,718	684,961	680,432	695,236	661,987	- 4,529	33,249
E20	**OAG**	590,967	605,111	665,557	665,934	689,188	708,142	377	- 18,954
E21	**MFMRD**	2,163,478	1,908,213	2,156,517	1,940,188	2,279,744	2,020,278	- 216,329	259,466
E22	**MOH**	**14,835,774**	**14,930,041**	15,423,530	16,376,246	15,522,764	17,792,976	952,716	- 2,270,212
E23	**MOE**	**19,592,120**	**19,212,646**	19,829,311	19,645,065	20,152,235	19,834,251	- 184,246	317,984
E24	**MCTTD**	2,566,332	2,415,559	2,582,449	2,581,147	2,677,655	2,666,059	- 1,302	11,596
E25	**MFED**	2,804,816	2,711,947	2,851,835	2,805,515	6,438,994	5,864,200	- 46,320	574,794
E26	**MWYSA**	-	-	1,316,790	1,294,219	1,524,060	1,531,335	- 22,571	- 7,275
E27	**MPWU**	2,331,799	2,308,930	2,350,738	2,273,917	2,386,335	2,390,739	- 76,821	- 4,404
E28	**MLHRD**	3,545,963	3,702,697	3,564,240	3,702,884	3,684,455	3,684,938	138,644	- 483
E29	**MLPID**	2,698,279	2,594,684	2,701,008	2,684,460	3,175,031	2,828,832	- 16,548	346,199
E30	**DEBT SERVICING**	2,082,978	2,740,407	9,659,975	10,087,262	667,800	1,248,999	427,287	- 581,199
E31	**OTHER GOVT EXPENSES**	**21,966,820**	**20,962,659**	**26,615,412**	**22,772,895**	**29,417,304**	**24,626,469**	- 3,842,517	4,790,835
	TOTAL excluding contri. to RERF	**105,782,585**	**105,585,564**	**122,135,886**	**120,254,788**	**136,208,317**	**133,231,079**	**- 1,881,098**	**2,977,238**
E03	**CONTRIBUTION TO RERF**	-	-	-	10,000,000	-	175,000,000	- 10,000,000	-175,000,000
	TOTAL including contri. to RERF	**105,782,584.70**	**105,585,564**	**122,135,886**	**130,254,788**	**136,208,317**	**308,231,079**	**8,118,902**	**-172,022,762**

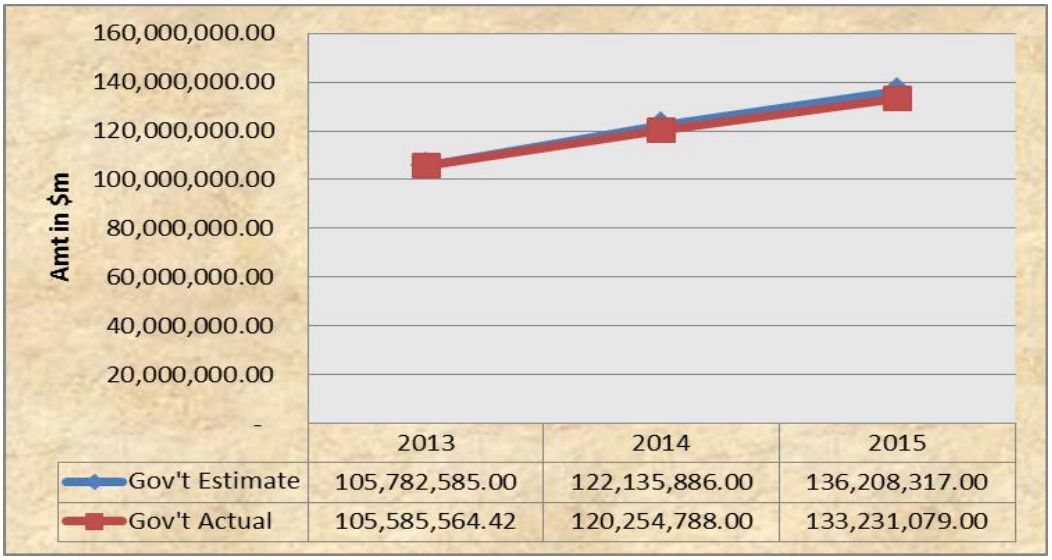
(Source: Extracted from 2014 & 2015 Annual Account)

3.2.2 Comparative table for Gov't expenditure against actual for years ending 2013 -15

Year	Gov't Expenditure Estimate	Gov't Actual Expenditure	(Over)/Under
2013	$105,782,585.00	$105,585,564.42	$197,020.58
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

3.2.3 Comparative expenditure graph for years ended 2013 up to 2015

Figure 3.2A: Comparative expenditure graph for years ended 2013 -15



It is pleasing to note that in year 2015 the government expenditure of $133.2m was below the estimated budget of $136.2m, which has resulted in reporting the net savings of over $2.97m, an amount of which almost doubled the net savings reported in last year significantly by $1.8m.

3.2.4 Un-authorised spending by Ministries for year ended 31/12/15

Table 3.2B: Un-authorised Government Expenditure by Ministries as at 31/12/15

Code	Ministry Name	Estimate	Actual	Under/(Over)
E08	**OPL**	326,502	403,843	- 77,341
E09	**OB**	1,708,761	1,797,285	- 88,524
E10	**PSO**	602,290	637,668	- 35,378
E11	**JUDICIARY**	1,650,030	1,654,347	- 4,317
E12	**KPPS**	7,262,784	7,329,687	- 66,903
E13	**PSC**	241,818	256,698	- 14,880
E14	**MFAI**	2,178,571	2,745,375	- 566,804
E20	**OAG**	689,188	708,142	- 18,954
E22	**MOH**	15,522,764	17,792,976	-2,270,212
E26	**MWYSA**	1,524,060	1,531,335	- 7,275
E27	**MPWU**	2,386,335	2,390,739	- 4,404
E28	**MLHRD**	3,684,455	3,684,938	- 483
E30	**DEBT SERVICING**	667,800	1,248,999	- 581,199
	TOTAL	**38,445,358**	**42,182,032**	**- 3,736,674**

(Source: Extracted from Annual Account 2015)

As disclosed in the table above the total unauthorised spending in 2015 by Ministries including Debt Servicing was **$3.7m**, a slight increase of **$1.2m** was realised when compared to last year overspending **of $2.5m.** Further details of the unauthorised spending by Ministries reflected above would be elaborated in Part 1 of the Audit Report, and the avenue in approving such aftermath is stipulated under Section 109 (5) of the Constitution 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*".

As already reiterated in my earlier report *"this had never been done for the past years where same also occurred and it is therefore of paramount importance the current PAC included in its forthcoming reports on the Government Accounts to reproduce the above for approval by the Maneaba"*

Management responses:

Management response was received.

3.2.5 Summary of Debt Servicing:- (2012-2015)

Table 3.2C: Summary of Debt Servicing Actual Expenditure (2012-2015)

Title	2012	2013	2014	2015
EIB loan	270,044.35	309,282.15	149,285.07	-
ADB loan 281	36,671.04	14,337.55	14,947.08	40,219.15
ADB loan 724	33,597.10	35,661.37	39,431.03	41,123.90
ADB loan 786	19,018.07	60,773.21	43,148.61	46,011.03
ADB loan 922	51,463.61	54,553.95	58,576.07	62,956.32
ADB loan 1039	21,506.49	47,586.75	49,515.75	36,059.29
SAPHE Projects 1648	339,862.90	380,578.76	382,886.69	418,131.27
Other Financing	6,430,409.34	1,837,633.36	9,349,471.80	604,497.78
Total	**7,202,572.90**	**2,740,407.10**	**10,087,262.10**	**1,248,998.74**

As could be sighted above total Debt Servicing over the four consecutive years fluctuated considerably. For instance the total in 2014 of $10.1m dramatically decreased to $1.2m in 2015 when it had been a significant increase by $8m from 2013 to 2014. Despite past persistent recommendations that these loans be converted to grants these still remain standing as loans in the Public Account. It is therefore crucial for record purposes that Management provides a valid explanation as to why these loans could not be converted.

3.2.6 Comparative table expenditure against estimate of Debt Servicing – 2015

Title	Actual	Rev. Budget	Variance
EIB Loan	-	-	-
ADB loan 281	40,219.15	14,500.00	- 25,719.15
ADB loan 724	41,123.90	37,000.00	- 4,123.90
ADB loan 786	46,011.03	60,800.00	14,788.97
ADB loan 922	62,956.32	55,000.00	- 7,956.32
ADB loan 1039	36,059.29	48,000.00	11,940.71
ADB SAPHE 1648	418,131.27	381,000.00	- 37,131.27
Other Financing	604,497.78	71,500.00	- 532,997.78
Total	**1,248,998.74**	**667,800.00**	**- 581,198.74**

As noted above the overspent incurred in 2015 was incurred mainly by i) Other Financing and ii) the prolonged ADB SAPHE project in the sum of $532k and $37k respectively. An explanation is sought on any consequences these negative variances will have on future budgets.

Management response:

Management response was received.

3.2.7 Other Financing[3]: 2015 $604,497.78, 2014 $9,349,471.80

In the conducting of this year audit it was found that the actual Other Financing balances had significantly dropped from $9.3m (2014) to $604k (2015) which had caused a colossal reduction in the amount of $8.7m. The reductions reported above was an indication of proper internal mechanism been put in place by management and therefore should do the same in subsequent years.

Management response:

3.2.8 Summary of Other Government Expenditure 2013 - 2015

Table 3.2D: Summary table of other gov't spending (2013-15)

Year	Budget	Actual	Balance
2013	22,078,900.00	20,962,659.66	1,116,240.34
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

With a slight increase in the budget level by 9.5% the actual expenditure as reflected above was also increased slightly 7.5%. Despite such increases, the audit had still noted the net savings for other government expenditure in 2015 amounted to $4.7m, an amount of which almost doubled the net savings reported last fiscal year 2014 as per indicated above.

[3] Other financing was mainly derived from O/S JPY Comm, Bank charges & civil suites, Loan agreement & road rehabilitation loan.

3.2.8.1 Un-budgeted and un-utilised approved budget – Other Government Expenditure

Allocation	Description	Budget	Actual	Variance
E3118-331	Freight subsidy local produc	1,000,000	0	1,000,000
E3113-349	Rice buffer for Line &Phoenix	164,357	0	164,357

The audit had selected only three outputs amongst numerous allocations/outputs under other government expenditure for its audit analysis as indicated in the table provided above. Upon the audit analysis the following issues were discovered as follows:

i) The output for freight subsidy was still included in the budget 2015 the provision of which was to cater for payment of freight charges for local produce that were shipped from outer islands to South Tarawa for marketing purposes. As reflected in the management report 2015 the actual approved provision for this output had increased to $1m, an increase of $850k[4] from last year 2014. However, the approved budget of $1m had not been utilised throughout the year.

ii) Another output that its approved provision had also not been used during the year was rice buffer for line & phoenix group and the amount involved was $164k as indicated in the table above.

iii) Therefore, from the above findings concerned management comments are invited as to why these provisions had continuously being included in the budget but not utilised and also why Maintenance provision was nil in the 2015 management report but revealed in the budget book 2015.

Management response:

Management response was received.

[4] 2015 $1m less 2014 $150k = $850k

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 2015.

GL Code	Special Funds Title	2013	2014	2015
Stabex				
F007-62A	Stabex Special Fund	- 59,351.55	- 59,351.55	- 59,351.55
F007-63A	No. 6 Stabex Fund	1,335,920.87	408,215.63	- 439,968.06
F007-64A	Local Stabex Fund	899,821.08	3,066,869.66	1,897,740.71
	Sub Total	**$ 2,176,390.40**	**$ 3,415,733.74**	**1,398,421.10**
Other				
F007-10A	Coinage Security Special Fund	-	- 30,809.29	-
F007-30A	Kaoki Maange Special Fund	- 188,897.18	- 299,626.14	- 317,413.65
F007-61A	Import Levy Fund	- 4,222,721.29	- 4,682,030.50	- 5,094,574.22
F007-66A	Leper Trust Fund	- 8,961.27	- 8,961.27	- 8,961.27
F007-67A	Dai Nippon Causeway Fund	- 2,598,623.32	- 2,581,247.91	- 2,292,113.82
F007-68A	Esrow Fund	- 66,536.76	- 66,536.76	- 66,536.76
F007-69A	Civil Aviation Special Fund	- 613,233.05	- 642,035.74	- 350,689.89
F007-70A	Plant & Vehicles Unit Fund	- 348,397.73	- 488,588.11	- 504,490.72
	Sub Total	**- 8,047,370.60**	**- 8,799,835.72**	**- 8,634,780.33**
Land Equity				
F007-71A	Land Equity	**-**	**-**	**- 10,993,224.00**
	Grand Total	**- 5,870,980.20**	**- 5,384,101.98**	**- 18,229,583.23**

(Source: Annual account 2015)

As displayed above the value of the Fund for the year ended 31/12/15 increased significantly by over $12.8m or 2.38 times reported in 2014 account. The major causes to the huge increase of the funds balances including other matters in which indeed need to be settled as noted during the audit are itemised in detail as follows:

i) The major contributors to the increase of the funds were mainly caused by the newly inclusion of land equity as a special fund amounted to $10m as well as the increase of collection for Import Levy Fund, Plant & Vehicles Unit, Kaoki Maange Fund and No.6 Stabex Fund respectively.

ii) The audit noted that in 2015 only one debit figure appearing under code F007-64A valued to $1.89m if compared with last year 2014, when the account disclosed two debit figures which indicate an over-draft amount when appearing amongst the investments balances. Hence, management comments are invited as to why this debit figure had appeared again under code F007-64A and what does it really means?

iii) Further, the audit is of the belief that the total value of the Fund could have been distorted by the inclusion of in-active and pro-long accounts such as Stabex, Leper Trust Fund and Escrow as these funds were no longer suitable as Special fund accounts.

iv) By looking at the statement of special fund as at 31/12/15 (page 34 refers) there were 3 new items included as extra funds namely i) Retained Income B/Fwd balance with an amount of $21m ii) Consolidate fund amounting to $107m and iii) Land Equity with its amount of over $10m. However, in a legal term these funds are indeed not special funds and therefore should not be included under Special Funds Account as these could distort the net worth of the Government.

v) From the audit observations highlighted above, it is therefore of paramount importance valid explanations should be provided from management concerned to resolve these anomalies accordingly.

Management response:

Management response was received.

3.3.1 Import levy Fund

Findings and Analysis:

The purpose of Import Levy Fund is to finance all goods imported into Tarawa for commercial purposes. The current levy is set at **AU$ 30 per cubic meter or per 875 kg** of goods imported regardless of value. The Customs Department of the MFED assesses and collects the levy to be paid by importers together with other duties and are charged as part of the Bill of Entry. Funds from the ILF were used to subsidize the costs of transporting goods, imported or locally sourced, from South Tarawa to the outer islands. Payments are made from the ILF to wholesalers as:

(i) reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd) from South Tarawa to islands in the Gilbert Group of all goods for commercial purposes; and

(ii) Reimbursement of actual freight costs (not exceeding the approved freight rates set by the Kiribati Shipping Company Ltd) of selected agricultural produce from the outer islands to South Tarawa. For islands in the Line and Phoenix Group, the subsidy is limited to the cost of freight between South Tarawa and the easternmost atoll in the Southern Gilberts (Arorae).

Reimbursement is limited to freight costs and does not include land transport, loading and other wharfage charges.

3.3.1.1 Import Levy Fund Balance 2015

As disclosed in the GL report 2015 the actual amount receipts for import levy fund was summed to the amount of over $7.68m, an amount of which was over the total receipt collected in year 2014 of $6.94m.

It is noted the total payment incurred amounting to $2.58m in 2015 did not exceed the total receipts of $3m thus resulted in a net saving of over $412k if we exclude brought forward balance (closing balance 2014) of $4.68m. In real terms when summing up the brought forward balance (opening balance in 2015) and the actual activated receipts during the year, then the actual net balances of Import levy fund would be over $5.09m, re details of which are appended in the table below.

Table 3.3B: Import levy fund balances 2015

Description	FY 2014	FY 2015
Opening Balance	$ 4,222,721.29	$ 4,682,030.50
Plus: Receipts	$ 2,726,979.97	$ 3,000,183.74
Total Receipts	$ 6,949,701.26	$ 7,682,214.24
Less: Payments	$ 2,267,670.76	$ 2,587,640.02
Closing Balance at year end	**$ 4,682,030.50**	**$ 5,094,574.22**

(Source: extracted from GL report 2015)

3.4) Statement VI: Cash at Bank and On Hand as at 31/12/15

Findings and Analysis:

3.4.1 Cash at Bank and On Hand Balance - 2015

Basically the balance of the Cash at bank & on hand excluding the value of cash-in-transit for the year ended 31/12/15 was $66.31m as per provided in the table below. The balance disclosed in the 2015 annual account of $66.31 was below the amount reported for year 2014 of $116.6m, which has resulted in a shortfall value of $50.3m. Further, some anomalies were also detected whilst carrying out this year audit and these are provided in details under this section.

Table 3.4A: Cash at bank & on hand for year 2013 – 2015

Accounts Title	GL Code	FY 2013	FY 2014	FY 2015	Inc/(Dec) 2014	Inc/(Dec) 2015
No.1 Account (Operating Account)	M0030000001A	- 2,293,939	76,752,109	20,414,618	74,458,171	- 56,337,491
No.4 Account(Project)	M0030000004A	4,317,173	12,766,138	25,232,901	8,448,965	12,466,763
No.5 Account (Kiritimati)	M0030000005A	2,590,983	2,503,161	2,460,426	- 87,822	- 42,735
No. 6 Account (Stabex)	M0030000006A	303,206	179,442	127,918	- 123,764	- 51,524
Petty Cash	M0030000007A	- 455	-	-	455	-
Term Deposits with ANZ Bank	M0030000008A	5,000,000	23,000,000	16,540,000	18,000,000	- 6,460,000
KPF Clearing Account	M0030000010A	471	- 124,802	- 336,725	- 125,272	- 211,923
Sundry Creditor Clearing Account	M0030000013A	- 8,425	- 8,425	- 8,425	-	- 0
Kiribati High Commission (Fiji)	M0030000017A	1,332,994	1,244,573	1,724,742	- 88,421	480,169
Taipei Mission Bank Account	M0030000018A	79,922	11,186	16,996	- 68,736	5,810
New York Mission Bank Account	M0030000019A	167,496	29,471	- 87,075	- 138,025	- 116,546
Taipei Mission Petty Cash	M0030000020A	301	402	817	101	415
Kiribati High Com Petty Cash	M0030000022A	-	-	6,382	-	6,382
EPOS - Outer Island	M0030000023A	-	-	30,000	-	30,000
sub total 1		**11,489,728**	**116,353,257**	**66,122,575**	**104,863,529**	**- 50,230,682**
OTHER						
Sub-Accountants	(M0031s)	4,250	4,250	4,250	-	-
State Funds - Local Governments	(M0032s)	- 36,448	236,213	153,490	199,765	- 82,723
Cash with Agents	(M0034s)	36,971	36,971	36,971	73,941	0
sub total 2		**4,772**	**277,433**	**194,711**	**282,206**	**- 82,722**
Total Cash Balance Sheet - 2014 (excluding RBC of $1.6m)		**$ 11,494,499.84**	**$ 116,630,690.27**	**$ 66,317,286.00**	**$ 128,125,190.11**	**-$ 50,313,404.27**

(Source: Annual Accounts 2015)

3.4.2 Government No. 1 Bank Account Status

In referring to the annual account 2015 the balance of the No.1 Bank Account at year end was **$20,414,618**. However, the shortfall in value of **$56,337,491** was realised when compared with last year balance of **$76,752,109**. The closing balance reported above amounted to **$20.4m** was not confirmed yet, same case with other accounts, with the Bank Audit Certificate due to the absence of such reliable information (i.e. Bank Audit Certificate 2015). The audit noted with concern that the requested bank audit certificates for all government accounts including IBDs for year ended 2015 were still not provided upon audit request to date, hence made it not possible for audit team to carry out further their comparative analysis. In addition, the audit also discovered that the balance in 2014 amounted to **$79,752,109.40** had still not adjusted to the amount of **$78,622,606.11** as per 2014 Bank Audit Certificate advice. Therefore, in this incident valid comments from concerned management are also invited accordingly.

3.4.2.1 Outstanding Deposit Balance at year end 2015

Whilst performing this year audit it had been noted that the total outstanding deposits valued to **1,655,446.21**[5] had still not appeared in the bank statement from prior fiscal years till date. It is evidently confirmed after the audit comparative analysis performed that the value of outstanding deposits had steadily increased from *2014 ($1,549,186.16) to 2015 ($1,655,446.21)* significantly by **$106k.** It is a major concern because:

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. Hence, the above have all affected the cash flow of government throughout the year.

It is therefore of paramount importance that the concerned Ministry (i.e. MFED) quickly followed up cheque bearers to issue fresh cheques and to take appropriate stringent action against staff handling cash receipts that had gone missing.

3.4.2.2 Value of un-presented cheques – 2015 $4,730,197.10 (2014 $3,410,174.19)

As clearly reflected in the 2015 Bank Reconciliation Report the total amount of un-presented cheques at year end was **$4.73m** whereas in 2014 it was **$3.41m** thus depicting an increase of $1.32m or the actual amount of un-presented cheques in 2015. This means there are payments still pending as at the year end and these have in fact inflated the net worth of Government of **$933,800,146 as shown on page 11.**

Management's response is sought as to why un-presented cheques of $1.32m were not paid as these with earlier accumulated payables when claimed in 2016 by claimants could adversely affect the cash flow of the Government and a distortion of budget of concerned Ministries as we all know commitments are hard to account for in the budget.

Additionally, there were stale cheques found during the audit in the sum of **$209,402.50** which would escalate the value of un-presented cheques further**.** However it was noted that included in the above

[5] Refer to Audit Working Paper Ref: AS2/1 – Outstanding Deposit for No. 1 Bank Account 2015

were cheques in the sum of $94k, as per details shown below, that were marked "cancelled" but still listed in the bank reconciliation report provided by MFED. Therefore explanation is also sought from management concerned.

Date	Details	Cheque #	Amount
27/1/15	Multichem Export	798044	$17,128.60
27/1/15	Oceanic Broadband	798045	$77,470.00
		Total	**$94,598.60**

Implications:

Failure to provide bank audit certificate upon the audit request would undermine the integrity and capability of management and officials of the Ministry concerned.

The absence of control over the outstanding deposits as well as the un-presented cheques would understate and inflate the net worth of Government and if no prompt corrective actions instigated a negative impact mainly on the cash flow of the government would result.

Recommendations:

MFED through its Accounting Division should urgently seek release from the Bank of the bank audit certificate and send them to the Auditor General Office for further testing on all bank accounts of the Government.

MFED should quickly seek replacement/fresh cheques from payers so to replenish Government funds.

With regard to the payees management should produce an aging list of payees and arrange, where possible, to pay out amounts owed accordingly and to pay back into the Consolidated Fund amounts unclaimed for more than five years, re section 27 of CAP 79.

Management must ensure its responsible officials are all fully conversant and comply with the provisions of financial government rules, laws and regulations and to have in place punitive measures to deter actions that would result in breach of trust.

Management should regularly check and review the tasks of all its Revenue Cashiers to ensure there are no more un-presented cheques or deposits by the end of each year.

Management response:

Management response was received.

3.4.3 Government No. 4 Bank Account

In 2015 the balance of the No.4 Bank Account reflected in the Annual Account amounting to **$25,232,901** almost double the balance reported as at 31/12/14 of **$12,766,138.** However, in the absence of the Bank Audit Certificate it made it difficult for auditors to confirm the balance shown as at end of 2015.

3.4.3.1 Outstanding Deposits as at 31/12/15 $34,167.06 (2014 $46,730.84)

According to the No. 4 Bank Reconciliation Report provided by MFED the value of outstanding deposits had been decreased significantly by $12,563.78. As confirmed some of such outstanding deposits related to prior years and still not settled to date as these have repeatedly appeared in the bank reconciliation report as per details shown in the table below. It is worth noting that of the list below **four** outstanding deposits with total value of **$3,476.60, or 1/10th** of the total, related to 2016 the inclusion of which confirmed such have already become stale if these were cheques or were cash losses if such were in the form of hard cash.

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
31/12/15	WEELEE INT HLDING	RV 201512030	220.00
6/1/16	Mfed 255/15 249377-249395	RP 201512026	**1,988.75**
“	Mtc 46/15 250635-250651	201512027	**262.85**
“	Mfed 257/15/25 294803-249826	201512028	**825.00**
“	Mfed 256/15/25 252396-252556	201512029	**400.00**
	Total		**$34,167.06**

The effect of the above is an understatement of the value of the fund by the end of the year.

3.4.3.2 Un-presented cheques: $1,549,340.06 (2015) $1,595,491.30 (2014)

It was noted when conducting this fiscal year audit that the level of un-presented cheques had been reduced from 2014 to 2015 by **$46,151.24**. These cheques involved payments to payees that had not been claimed for over a reasonable period failing that resulted in cheques becoming stale and as such had inflated the net worth of Government as at the year-end, 2015.

However the actual amount of stale cheques noted during the audit was **$47,803.38,** a slight increase by **$1,652.14** over that aforementioned difference. As noted in previous similar issue management should provide an aging analysis to foster application of section 27 of CAP 79 on unclaimed payables that have been in the records for more than five years.

Implications:

The absence of a Bank Audit Certificate provided from ANZ Bank would of course raise doubts on the actual funds held in the No. 4 bank account.

The absence of an aging analysis could increase the risk of losses to the No. 4 Accounts.

Recommendations:

MFED should ensure the bank audit certificate for the No. 4 bank account including other Government Bank Accounts are produced annually failure by which would undermine the integrity and capability of the workforce and also would raise doubt on the accuracy of the Public Accounts as presented each year end.

Management should always have the list shown by date order and to ensure application of section 27 of CAP is activated as soon as transfers are due.

Management response:

Management response was received.

3.4.4 Government No. 5 Bank Account[6]

This is the bank account of the Ministry of Line and Phoenix Development into which their annual allocated budget and other Ministries' Departmental Warrants are deposited.

As of now there had not been any bank reconciliation conducted, prepared and presented in a proper format though this had been requested and reported in my previous audit reports hence made it not possible for the audit team to perform further testing. The repetition of such error proved management had not bothered in correcting their bank reconciliation nor adhered to my previous recommendation. Therefore concerned officers should be reprimanded accordingly.

As an aside observation during the audit we noted the new SA (Senior Accountant) had just started with a correct Bank reconciliation in 2016.

Further, when comparing the bank statement for the No.5 Account as at 31/12/15 of **$122,052.51** against the annual account 2015 produced by MFED, we noted a different balance reported of $2,460,426 thus incurring an un-substantiated variance of $2,338,373.49. This indicates that the balance at year end for the above Bank Account had been overly reported by the MFED and thus had also erroneously inflated the net worth value of Government for the year ended December, 2015.

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*.

[6] Further details of the No. 5 Bank Account could be viewed in the audit report for MLPID 2015 – Part 1 Audit Report 2015 refers.

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 2015.

Management response:

Management response was received.

3.4.5 Government No. 6 Bank Account (Stabex Fund)

Table 3.4B: Special Fund Statement for Stabex Fund against Cash at bank & on hand Statement for Stabex Fund

Statement	Code	Description	Amount	vs	Statement	Code	Description	Amount
Special Fund	F007-064A	Local Stabex Fund	1,897,740.71		Cash at Bank & On Hand	M003-06A	No. 6 Account Stabex Fund)	127,918.00
	F007-062A	Stabex Special Fund	- 59,351.55					
	F007-063A	No. 6 Stabex Fund	- 439,968.06					
		Total	**1,398,421.10**				**Total**	**127,918.00**

By looking at the above table, the balance of the No. 6 account of $127,918 was below the sum of $179,442 reported for 2014 thus incurring a reduction by $51k.

Further, the audit had also detected a significant variance of $5,627,957 between the MCIC expenditure records of $7,646,957 against that held by Finance (GL report) of $2,019,000. This proved the lack of regular reconciliation between management of MCIC and MFED.

It was also noted that there was a discrepancy of the No.6 account balance detected in the sum of $312,050.06 between the No.6 account balances disclosed under the statement of special fund as at 31/12/15 amounted to $439,968.06 and the statement of cash at bank and on hand as at 31/12/15 in the amount of $127,918 respectively. Hence justification is also required from the concerned Ministry.

Management response:

Management response was received.

3.4.6 Kiribati High Commission – Bank Reconciliation 2015

As witnessed during this year's audit the monthly bank reconciliation for KHC in 2015 was only updated and completed up to end of August 31st 2015 and no further reconciliation was noted till to date, i.e. October, 2016. The issue with the bank reconciliation highlighted in my previous reports as well as recommendations had neither been addressed nor implemented by management.

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.

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 response was received.

3.4.7 Cash In Transit (RBC)[7]

As we all knows the cash in transit or 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.

The balance of RBC noted in the annual account had reached the amount of $1,609,926 and when compared with last year's balance of $1,011,235 a variance of $598,691 was noted. The variance noted above represents the increase in value of the cash in transit in 2015, an amount of which had exceeded the increase in value of $409,423.26 realized in 2014.

Moreover, the audit noted variances after cross checking debit and credit figures of the selected respective islands and that was due to the lack of proper reconciliation performed by the Ministry concerned, re details as per table below:

Islands	Account code	Opening balance	Amount Debited	Total amount Debited plus opening balance	Total amount credited	Total Net Amount
Arorae	M0033-06A	$913.00	$135,360.00	$136,273.00	$134,900.00	$1,373.00
Beru	M0033-07A	$11,102.33	$70,7535.5	$718,637.83	$70,7535.5	$11,102.33
Nikunau	M0033-13A	($1989.85)	$451,322.00	$449,332.15	$451,437.00	$(2,104.85)
Banaba	M0033-19A	$3,055.00	$12,740.00	$15,795.00	$12,300.00	$3,495.00
Fanning	M0033-21A	$734,737.06	$21,0000.00	$944,737.06	-	$944,737.06
Washington	M0033-22A	($29,109.07)	$275,020.00	$245,910.93	-	$245,910.93
KHC	M0033-27A	$199,051.61	$3,987,137.34	$4,186,188.95	$3,887,582.39	$298,606.56

Management responses:

Management response was received.

[7] This sub section was included here due to the absence of Statement (No. XVIII), in the annual account 2015.

3.5) Statement VII: Advances from Consolidated Fund as at 31/12/15

Findings and Analysis:

3.5.1 Advances from Consolidated Fund Status: – (2013 - 15)

Table 3.5A: Level of Advances from Consolidated Fund

Title	2013	2014	2015	inc/(dec) 14	inc/(dec) 15
Public Officers[8]	9,037,198.87	11,548,038.45	12,504,876.46	2,510,839.58	956,838.01
Sundry Advances	- 426,582.42	- 412,492.10	- 387,182.69	- 14,090.32	-25,309.41
Total	**$ 8,610,616.45**	**$ 11,135,546.35**	**12,117,693.77**	**$ 2,524,929.90**	**$ 982,147.42**

(Source: Annual Account 2015)

Overall, the level of advances from Consolidated Fund had kept increasing over the last three consecutive years. In 2013 & 2014 the total amount of such advances reflected above were $8.61m and $11.13m respectively. In 2015 the value of advances from Consolidated Fund had further increased to $12.11m, an amount of which caused the increase from the 2014 level significantly by $982k.

It is therefore of paramount importance MFED should take note of this seriously as such figures shown above are also cash tied up in the hands of employees and had also affected the cash flow of Government. Hence, MFED management must promptly pursue remedial recovery action from concerned officers in order to avoid having aged debts which could pass the Limitation Act of 6 years. MFED should also enforce a strong internal control mechanism primarily on the issuance of future advances and Imprests accordingly.

3.5.2 Advances: (L100A) $7,733,326.31 (2014 $7.51m)

The balance for Advances accounts as reflected in the Annual Account 2015 was $7,733,326.31. As noted, the balance reported above was made up from the salary advance account (L100) of $3,779,387.45 and the net balance of $3,953,938.86[9] for PF L100 – Individual account respectively. However, the audit realized that the balance reported in 2015 had further activated the increase in value of over $225k when compared with last year balance of $7,508,697.77. The table provided below shows the balances extracted from trial balance against that noted in the Annual Account as follow:

Advance(L100As)				
Accounts	**(A) Amount as per Trial balance**	**(B) Credit balance (PFL100-individuals)**	**Audit figure ((A) – (B))**	**2015 Annual Account**
Salary Adv (L100)	$3,779,387.45			
PF L100-individual	$3.977,802.44	$23,863.58		
Total	**$7.757,189.89**	**$23,863.58**	**$7,733,326.31**	**$7,733,326.31**

It is apparent the aging analysis regarding the above figures has to be provided from Management for determining the number of officers with their outstanding dues that are still within the statute limit and to

[8] Public Officers consists of Imprest and Salary Advance (**L** codes) & Other Advances (**J** codes)

[9] Amount as per trial balance $3,977,802.44 less credit balance of $23,863.58 – PF L100 Individual Account.

advise related parties mainly for; (i) hastening robust recovery actions and (ii) proper actions on the irrecoverable amounts, if any.

3.5.3 Salary Advance

Some identical anomalies reported in my previous audit report were still discovered under this year's review as indicated in bullet points below:

- Failure to provide an updated aging analysis for both salary advance (L100) and personal advance.
- Officials names for those already left the government service still appeared in the trial balance.
- Posting of allowances in error to employees customer cards, as was the case last year, also detected this year.
- Accurate figures of salary advance as well as personal advance could not be provided by Finance.
- Not performing proper and regular reconciliation resulting in detecting the above stated issues.
- Absence or lack of instigating recovery actions through the courts would increase risk of loss of public funds.

3.5.4 Personal Advances

The personal advances relate mostly to Island Treasurers the amounts of which kept accruing each time shortages are noted when an audit is done on the accounts of one treasurer. Recoveries of these could be difficult as some treasurers have retired or left the service.

Issues related to Personal Advances some of which were already included and specifically highlighted under sub-head of Salary Advances mentioned above. Further, the audit had discovered when taking similar samples noted in my prior audit report in which such outstanding dues were still remain constant till date, meaning no proper remedial recovery actions been put in place by the Ministry concerned. Hence responses from management are also invited herewith.

Implications:

The losses/shortages occurred and when amalgamating with others would definitely have an effect on the government 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:

- *Therefore in this case, 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 through its Accounting Division should be able to provide Aging analysis to show balances of Salary and Personal Advance on a yearly basis.*
- *MFED should impose stringent measures against fraudulent treasurers and ensure losses of the public funds are recovered promptly through the courts.*
- 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:

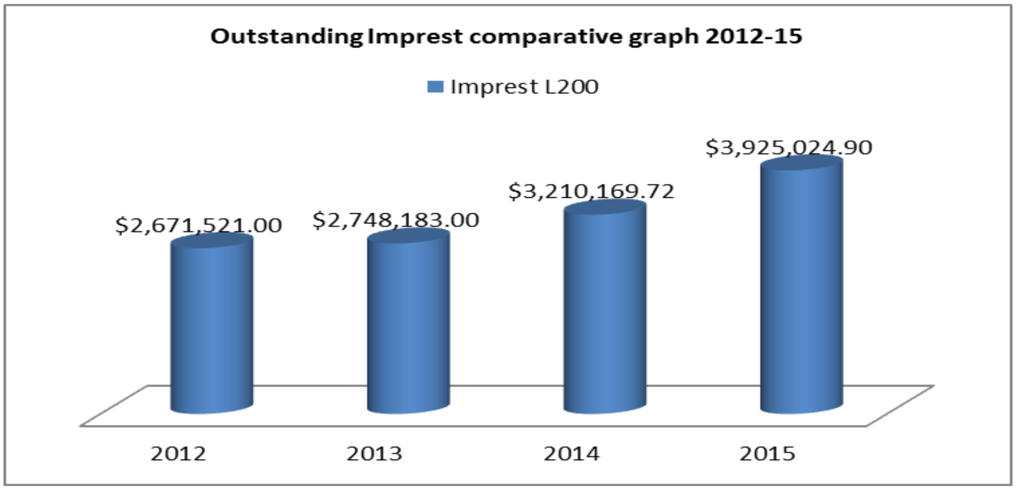
Management response was received.

3.5.5 Status of Imprest: (L200A)

Table 3.5D: Accumulative balances of Outstanding Imprest (2012-15)

Description	2012	2013	2014	2015
Imprest L200	$2,671,521.00	$2,748,183.00	$3,210,169.72	$3,925,024.90

Figure 3.5A: Outstanding Imprest comparative graph (2012 -2015)



In referring to the above comparative graph it is obvious the outstanding Imprest had kept increasing over the past four fiscal years. However, as observed during the audit, from year 2012 to 2013 the amount of outstanding Imprest had further increased significantly by 3%, then rapidly hurdled to 14% and 18% in subsequent years 2014 and 2015 respectively.

Comment on the balance of outstanding Imprest by year.

In considering the usage of funds by Imprest holders (traveler) against amounts shown as still outstanding and deemed owed to Government, re amounts shown in the Table above, there appears to be an inconsistency especially when the trip had successfully been completed. The Imprest component covering the "Per Diem" would be negated once the trip is completed while leaving still pending the "Incidental" part that would only be negated once claims are lodged with supporting documentations. This therefore means the only outstanding amount that could accrue for each traveler is the "Incidental" component the amount of which could range from $300 - $600 per traveler or, in proportionate terms, less than 1% of the Imprest issued per traveler.

Recommendations:

In order that the above is realized in future fiscal years the following are recommendations for implementation by MFED and responsible accounting officers stationed at different Ministries:

MFED Imprest Division staff:

- To create a database by Ministry with list of Individuals being issued Imprests with amounts split by component – "Per Diem" and "Incidental".
- The number of Imprests issued with total held by each Ministry should equal with MFED database record.

- The Ministry accounting officer will furnish MFED with an Imprest retirement form duly completed with supporting documentations as i) confirmation that retirement had been done and ii) approval for acceptance of next Imprest claim.
- MFED will update its records each time a complete and inclusive retirement form has been received from the Ministry.
- At each month end the MFED Imprest division staff will provide a list to the Ministry for reconciliation and clearing any backlogs been encountered on any particular Imprest holder.

Ministry responsible accounting officer:

- Create retirement Imprest forms for use by a traveler once a trip has been completed.
- Open a register to record details of the trip that will include travel start and end dates, Imprests total and split by Per Diem and Incidental.
- Send reminder to traveler on first day after return to base to retire the Imprest within 10 w.ds.
- In third week of return to base by traveler accounting officer should collect boarding passes or passport for copying in the absence of boarding passes, and all receipts to support claims against "Incidental" if such is included in the Imprest.
- In same third week arrangements should have been made with traveler who owed some sums to Government for recovery purposes and accounting officer to send copies to MFED Imprest division for information and reference.
- In same third week refunds would be processed for travelers who are due refunds for having paid for their travel costs more than the "Incidental" provided.
- In forth week Ministry accounting officer will have updated own Imprest register and send to MFED a form showing details of the claims been made by the traveler(s).
- At each month end the Ministry accounting officer will do reconciliation with MFED Imprest division staff and sort our any anomalies noted.
- By end of the year the balance that would still remain in the records of both and of course that shown in the Government annual account would only be for:
  i) "Incidentals" still not agreed with,
  ii) Imprests in respect of those that return to base in the third week of December as the 10 w.ds will expire in the first week of January of the following year
  iii) Imprests of travelers who are under the installment payment arrangement and
  iv) Any Imprest holder who disputed decisions of either MFED or the accounting officer

Also Management should provide the Auditor General a split of the Imprest of $3,925,025 between "Per Diem" and "Incidental" and by Ministry. A further breakdown by Individual in the same split should be set aside and made readily available when later needed.

Once the above is available management should then ensure all accounting officers at each station commence collecting passport details if boarding passes cannot be produced by travellers who have successfully completed the trips and make professional decisions as to the extent of traveling expenses that could be allowed so to properly annul the outstanding Per Diems and Incidentals.

Conclusion

In light of the foregoing comments and recommendations it is obvious the amounts as shown in the annual accounts of December, 2015 have overly inflated the net worth of Government.

Management response:

Management response was received.

3.5.6 Other Advances – J0046 & J0044 $830,371.73 (2014:$829,171.73)

As reflected in the 2015 Annual Account the Other Advances account was comprised of two codes, one being the J0046 amounted to **$18k** and J0044 of **$812k** respectively the total of which when added together came to over **$830k**. However, in comparison with previous amount being reported, a gradual increase of **$1,200** was realised from last year's, 2014, level. Further, some in-active codes have repetitively noted with their static amounts appearing in the annual account of **$18,154.33** and **$43,067.79** for J0046s Standing Imprest and J0044 Banaba RCL Payments respectively. These static figures would continuously distort the balance of the advances account if are not corrected or discarded in the proper manner and therefore Management should conduct proper review on these accounts and ensure such inactive codes do not appear again in future annual accounts.

Management response:

Management response was received.

3.5.7 Sundry Advances (Bounce Cheque) ($387,182.69)

As could be recalled from my previous audit report Sundry Advances is one of the sub-accounts of Advances that appear in the balance sheet under the Assets side and therefore amounts shown in red or credit figures under the assets side mean gov't then owed these sum to officials instead of being owed by them. The credit figures noted in 2015 of **$387,182.69,** been an accumulated figure, fall below the value reported in 2014 by **$412,492.10** thus incurring a decrease in value by over **$25k.**

Management has to provide valid explanation as to what these accounts represent and whether there are plans already put in place to clear any unnecessary amounts repeatedly appearing in this sub-account.

Management response:

Management response was received.

3.6) Statement VIII: Advances from Deposits 2015

There were **NO** advances made from deposits in this financial year 2015.

3.7) Statement IX: Deposits with the GOK

Findings and Analysis:

Section 24 of Cap 79 declares that any moneys, not raised or received for the purpose of government may be deposited with the Accountant General (or any officer authorised by him). Additionally 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. Further details of these deposits are provided in the table as follows.

Table 3.7A: Summary of deposits account 2012-15

Description	2012	2013	2014	2015	Inc/(Dec) 15
DNE	- 1,128,790.64	- 1,030,032.14	- 1,181,224.36	- 1,020,977.67	1,020,977.67
Public Officers	- 24,856.54	- 28,892.75	- 32,420.50	- 34,419.00	1,998.50
Sundry Deposits	7,346,993.27	3,817,700.90	863,582.04	- 5,115,516.81	- 4,251,934.77
Telmo	- 5,154,460.72	- 4,366,246.45	- 794,439.42	5,580,644.80	4,786,205.38
Total	**1,038,885.37**	**- 1,607,470.44**	**- 1,144,502.24**	**- 590,268.68**	**554,233.56**

(Source: Annual Account 2012-15)

The balance of the deposit account in 2015 as reflected above was negative $590,268.68, a short fall of over $554k when compared with last year account balance of negative $1,144,502.24. It was further noted that most of balances shown in the deposits accounts included enormous unreconciled balances as indicated in sub issues noted hereunder.

3.7.1 Deceased National Estate (DNE)

The DNE balance are one of the funds held in trust by government for beneficiaries of deceased natives' estate and are payable to beneficiaries in accordance with the terms of the agreement endorsed by the Courts. However, the balance of DNE account as noted was vacillated over the last three consecutive years as shown in the table below.

Table 3.7B: Accumulative Balance of DNE (2013 – 2015)

				$ increase/decrease		% increase/decrease	
	2015	2014	2013	2015	2014	2015	2014
DNE	-1,020,977.67	-1,181,224.36	-1,030,032.14	160,246.69	-151,192.22	-1569.54%	1279.96%

From the table provided above the DNE balance was increased in 2014 in the amount of over $151k, while decreased in 2015 significantly by $160k therefore explanation is sought from management on the decrease.

It was further evidenced during the audit that the balance reflected above had never been reconciled to date by concerned Ministries (i.e. MELAD & MFED) the absence of which could raise doubt on the correctness of amount that actually owed by Government to beneficiaries.

Implications:

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.

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.

The Accounting Division at Finance has to provide satisfactory explanation in justifying the cause of the decrease noted in 2015 of DNE account amounted to $160k, failing by which would undermine both the capability and credibility of the system in place as well as the responsible officers.

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, section 27 of CAP 79 refers.

Management response:

Management response was received.

3.7.2 Sundry Deposits:

The balance of Sundry Deposits was fluctuated over the three consecutive years as evidently shown in the table below. It is also noted with concern that the balance for sundry deposits had changed for the first time from Debit figure of $863k in 2014 to Credit figure of -$5.11m in 2015 thus incurring a drastic drop of over $4.3m.

Further, the audit believed that the changes incurred in 2015 from DR to CR balances represent the increases in amounts that the government owes as the CR figures signifies the amounts the governments owes to respective listed bodies while reimbursements are expected from bodies with DR balances. It is therefore of paramount importance management to provide a valid explanation as to why the balances of sundry deposits had rapidly jumped from DR to CR balance and what had caused this.

Trend Movements of Sundry Deposit (2013-15)				**$ increase/decrease**	
Item	**2015**	**2014**	**2013**	**2015**	**2014**
Sundry Deposits	-5,115,516.81	863,727.58	3,817,700.90	-4,251,789.23	-2,953,973.32

The audit also discovered that there were additional accounts reported under sundry deposit for the year 2015 valued to **-$37,139.95**. Nevertheless, these newly accounts detected could be one of the major causes regarding the changes in balance of sundry deposit from DR to CR balances. Hence, this raises concern as to why these sub-accounts should appear as sundry deposits in 2015, thus management correct advice on this matter is required. Details of such are appended as follows:

3.7.3 Extra Accounts Detected Under Sundry Deposits.

Allocation	Description	2015	2014	Inc/Dec
O0050000010A	Ommitted claims etc	1,170.00	-	1,170.00
O0050000011A	Kir high com KPF acc	15,115.67	-	15,115.67
O0050001001A	Kir high com Insurance	209.22		209.22
O0050001002A	KHC maintenance	1,244.00		1,244.00
O0050006002A	Bangao Court Orders	632.00	-	632.00
O0050006013A	Sundry Dep for NY	(55,510.84)	-	(55,510.84)
		$ (37,139.95)	**$ -**	**$ (37,139.95)**
Source for above table: Taken from Annual account 2015 Statement IX (b) Lists of Sundry Deposits				

Additionally, during the review the audit had also detected some balances of listed items, similar with last year's issue, had remained unchanged from 2013 to 2015 and this is therefore again raises uncertainty on the activeness and accurateness of such figures, re details shown below.

Allocation	Description	2015	2014	2013	Inc/Dec
O0000000010A	Trade Creditors overseas	(145.00)	(145.00)	(145.00)	-
O0050006003A	Telmo salaries	480.14	480.14	480.14	-
O0050006015A	Constabulary Reward	(413.50)	(413.50)	-	-
O0050006024A	Prison Fund	(33.40)	(33.40)	(33.40)	-
O0050006067A	Private Workshop PWD	(74,549.85)	(74,549.85)	-	-
O0050006101A	Motiere Teuaai	50.00	50.00	50.00	-
O0050006114A	Forum Fisheries	(40.95)	(40.95)	(40.95)	-
O0050006116A	ODA Advance Funding	259.35	259.35	259.35	-
O0050006119A	FDA Loan	1,368,982.06	1,368,982.06	1,368,982.06	-
O0050006150A	Police Fund	5,550.11	5,550.11	5,550.11	-
O0050006325A	Small Industrry Project	(24,786.86)	(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-Prepertual deposit	(5,500.00)	(5,500.00)	(5,500.00)	-
O0050007792A	Deed of Release 2007-08 MPLID	(199,161.61)	(199,161.61)	(199,161.61)	-
O0050009999A	Bank Charges Salary deduction	(21,940.55)	(21,940.55)	(21,940.55)	-
		$ (91,348.58)	**$ (91,348.58)**	**$ 1,125,726.29**	**$ -**
Source for above table: Taken from Annual account 2015 Statement IX (b) Lists of Sundry Deposits					

Management responses:

Management response was received.

3.7.4 FDA Loan $1,368,982.06

One of the reported issues in year 2014 and prior also was the balance for FDA Loan which is a clearing account and is expected to have a nil balance. The audit noted that the balance disclosed in 2015 annual account for FDA loan still remains unchanged (see table above) and this was due to the lack of proper reconciliation from the Ministry concerned, therefore immediate proper action is required.

Management responses:

Management response was received.

3.7.5 Bank Agency Agreement $4,414,364.90

The audit had detected a further increase in the sum of **$15,170.14** for above sub-account when comparing the balance of last year, 2014 amounted to **$4,399,194.76** against that reflected in this year, 2015 of **$4,414,364.90.** The increase noted above simply indicates that withdrawals been made exceeded the amount been deposited by respective island council treasurers. Hence this was also due to the lack of reconciliation from the related concerned parties such as MFED and ANZ Bank.

Management responses:

Management response was received.

3.7.6 Telmo Accounts: $5.58m

In referring to the annual account 2015 the balance of Telmo account reflected under Statement IX was **$5,580,644.80**. However, the audit had detected a drastic increase of **$4,786,205.38** when compared with last year 2014 balance of negative **$794,439.42.** The positive figure shown as the year-end balance of $5.58m indicates that the Government had paid out more monies than what people actually paid in.

In addition, the audit had discovered the movements (increases) in value of both P0051 and I0052 of $6k and $4.94m respectively, although these entries were no longer valid except for P0053 & I0053 as specifically indicated in the notes provided therein. Yet, these increases in amounts noted would either cause over or understatement in Telmo balances reported in the annual account.

It was also further noted that after netting off the 2015 balance for active telmo accounts P0053 & I0053, we then finally come up with the value of over $48m[10]. The $48m represents the excess payments made by the Government as expected during the year. Hence, management comments and advice on any remedial actions been imposed is sought herewith.

And the reconciliation had not been performed frequently as expected despite having reiterated this point in my previous audit report.

Recommendations:

Reasonable explanation is required by the Ministry concerned (MFED) mainly on the movements of in-valid telmo accounts as referenced to GL codes P0051 and I0052.

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

Management response:

Management response was received.

[10] Difference between I0053 $144,240,516.77 and P0053 $96,195,722.88

3.8) Statement X: Contingent Liabilities

Findings and Analysis:

As stipulated under 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 the year and this is provided as follows:

Table 3.8 A: Contingent Liabilities balance for 2014 - 2015

Liabilities with ANZ Bank (Kiribati) Ltd.	**2015**	**2014**
Letter of Credit Facility (Air Service Nadi-Kiritimati Flight USD$806k	902,720	902,720
Visa Business Card Facility	280,000	280,000
Liabilities with Internantional Monetary Fund (IMF)		
Promisory Notes 3990000 SDR	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
Liabilities with International Development Association (IDA)		
On call 54,000 SDR	**93,264**	93,264
TOTAL CONTINGENT LIABILITIES	**10,048,004**	**10,048,004**

As could be seen from the table above the balances of the five sub-accounts listed above had remained unchanged from fiscal year 2014 to year 2015 thus had contributed to the unchanged in the overall balance of Contingent Liabilities in the sum of **$10,048,004** (refer table above). The non-movement of listed items above would concern mainly on the activeness and truthfulness of figures noted, hence management comment and is invited herewith.

Further, under the review it was confirmed that obtaining physical information on such substantial balances still could not be made available from the ministry concerned hence made it difficult for auditors to validate such substantial balances.

Recommendation:

Management should provide justifications on the non-movement of listed sub-accounts above and for being unable to provide physical information with regards to the above accounts when requested.

Management response:

Management response was received.

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 2013-15.

Allocation	Description (Investments)	2015	2014	2013
	RERF			
V006-100A	Investment with HSBC	371,865,017.32	399,914,014.92	372,962,691.36
V006-200A	NICAM	384,394,184.62	268,939,339.71	287,944,401.22
V006-203A	State Street	80,850,388.02	10,117,718.30	-
	sub total 1	***837,109,589.96***	***678,971,072.93***	***660,907,092.58***
	LAND			
V006-201A	Escrow Land Purchase - Fiji	9,300,180.00	9,300,180.00	930,180.00
	PIPA			
V006-202A	PIPA Trust Fund	2,623,224.00	2,623,224.00	2,623,224.00
	sub total 2 (Land & PIPA)	***11,923,404.00***	***11,923,404.00***	***3,553,404.00***
	OTHER INVESTMENT - ACTIVE			
V006-109A	Rothschild & Sons Investments	-	186,728.84	183,340.19
V006-103A	Investment with CBA - Coinage	-	-	233,529.60
V006-101A	CBA Investment Con Fund	-	-	30,959,761.98
	sub total 3	***-***	***186,728.84***	***31,376,631.77***
	OTHER INVESTMENT - INACTIVE			
V006-104A	Escrow Investment	66,536.76	66,536.76	66,536.76
V006-105A	IMF No. 2	292,186.50	292,186.50	292,186.50
V006-106A	World Bank	18,336.12	18,336.12	18,336.12
V006-107A	International Development Asso	11,693.05	11,693.05	11,693.05
V006-108A	IFC Subscription	11,308.50	11,308.50	11,308.50
V006-110A	AUD a/c 55-1999. 5th Anniversa	23,819.40	23,819.40	23,819.40
V006-124A	Aud a/c 56-0449. 10th Annivers	8,731.00	8,731.00	8,731.00
	sub total 4	***432,611.33***	***432,611.33***	***432,611.33***
	GRAND TOTAL	**849,465,605.29**	**691,513,817.10**	**696,269,739.68**

The statement noted above encompasses four sub investment accounts: i) RERF valued at $837m ii) Land amounted of $9.3m iii) PIPA of over $2.6m and iv) Other Investments summed to $432k. As observed, the balance of Investment was increased to $849m when comparing with last year 2014 balance of $691m, of which an increase of 18.6% was realized. The increase in value noted this year was predominantly caused by the increasing value of RERF to $837m.

3.9.1 Other Investments Status

As discovered when conducting the audit for above account some investment accounts, the details of which 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.

Rothschild & Sons investment was noted in my last year audit report as the only sub accounts under other investment that still remain active with it amount of **$186,728.84**. However, under this year review the balance of Rothschild & Sons investment was noted with a zero/nil balance (refer table above). As conveyed by MFED staffs the balance of Rothschild & Sons was transferred via JV800 to the No.1 Bank Account due to the close down of the Rothschild & Sons operations. Yet, the audit was unable to check and verify the total amount been transferred to the No.1 Account due to the failure by responsible officers to trace the whereabouts of the requested copies of JV 800.

Further the Net worth of Government had been overstated by the inclusion of Escrow Investment of $66,536.76 under Other Investment and that reflected under Special Fund statement of same amount (page 34 of Annual Account refers). The audit is concerned whether these investments exist or not, nor the government still has the right of ownership.

2014 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 recommend that the Finance should exert 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:

Management response was received.

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 31/12/2015

The table below shows the outstanding loans from the consolidated fund for year ending 31/12/2013 up to 31/12/2015 as follows:

Table 3.10A: Outstanding loan balances from Consolidated Fund (2013-15)

Borrower	Financed From	Year	Principal	OS Balance as per Annual Account 2013	OS Balance as per Annual Account 2014	OS Balance as per Annual Account 2015	Variance 2013 & 2014	Variance 2014 & 2015
DBK	Consolidated Fund	1962	100,000.00	100,000.00	100,000.00	100,000.00	-	-
DBK	Consolidated Fund	1977	20,000.00	20,000.00	20,000.00	20,000.00	-	-
KCWS	Consolidated Fund	1977	1,000,000.00	794,654.00	794,654.00	794,654.00	-	-
Air Tungaru	Develpoment Fund	1980	135,000.00	180,700.00	**180,000.00**	**180,000.00**	**700.00**	-
Air Tungaru	Develpoment Fund	1981	64,900.00	300,000.00	300,000.00	300,000.00	-	-
DBK	Develpoment Fund	1971	64,000.00	64,000.00	64,000.00	64,000.00	-	-
Te Mautari Ltd	Develpoment Fund	1981	250,000.00	250,000.00	250,000.00	250,000.00	-	-
Housing Corporation	Develpoment Fund	1983	100,000.00	100,000.00	100,000.00	100,000.00	-	-
KCWS	Stabex Fund	1986	500,000.00	415,000.00	415,000.00	415,000.00	-	-
PUB	ADB	1988	2,279,470.00	2,860,798.00	2,860,797.99	2,860,798.00	**0.01**	- 0.01
Betio Shipyard Ltd	ADB		894,962.00	894,963.00	894,963.00	894,963.00	-	-
DBK	ADB	1990	1,059,252.00	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**	**700.01**	- 0.01

(Source: Annual Account 2015)

As reflected above the balance of the loans were never changed in values from fiscal year 2014 to year 2015 in the sum of $7,159,486.00. This indicates that corresponding repayments on such prolonged loans have been neglected for period of times since the establishment of these loans. Further, the audit also noted that some companies included above were no longer existed as they have long been defunct years ago. Hence management update on actions been taken to date is sought herewith.

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.

Management Response:

Management response was received.

3.11) Statement XIII – Public Debts as at 31/12/2015

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 31/12/15 could be viewed at appendix 6 of this report.

Findings and Analysis:

The audit detected the variance of **$166,484.50** between the balance of public debts as per Annual Account and balance as per trial balance. The balance stated in the Annual account was **$1,082,513.94** whereas the amount reflected in the trial balance was **$1,248,998.74,** thus incurring the excessive discrepancy of $166k as noted above.

Further, as noted under Debt servicing (refer to section 3.2.5) the overspent incurred in 2015 was predominantly caused by other financing which constitutes of over 90% and the prolonged ADB SAPHE project of 5%. 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 it review on the position of Public Debts so as to be able to give a more reliable balance.

Management response:

Management response was received.

3.12) Statement XIV - Arrears of Revenue

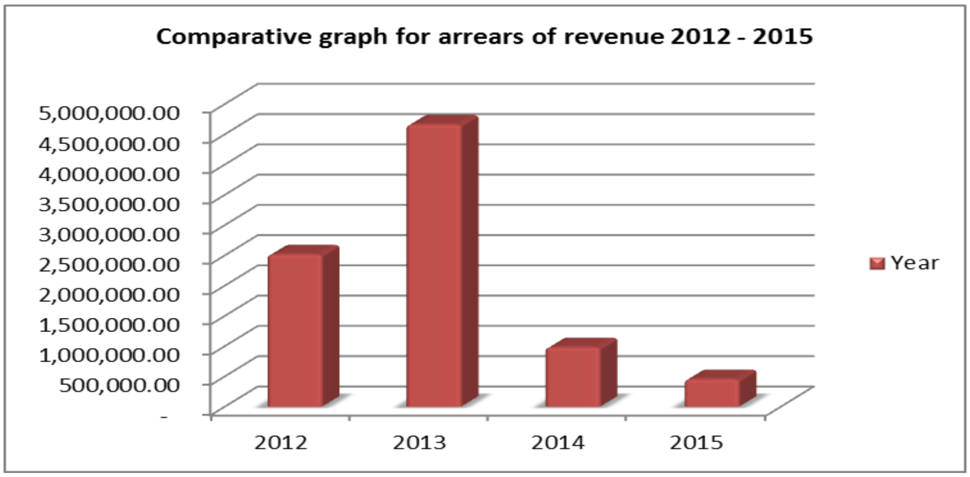
Production of a statement of arrears of revenue, by subheads is also a requirement under CAP 79, section 40 (xiii).

Findings and Analysis:

Table 3.12A: Balance of Arrears of Revenue for 2012-15

Year	2012	2013	2014	2015
Arrears of Revenue	2,515,315.89	4,661,490.79	980,634.17	453,889.10

Figure 12A: Comparative analysis graph for Arrears of Revenue for year ending 2012-15



Overall, the balance of arrears of revenue shown above do not give a true picture of the whole government arrears of revenue due to the following issues noted:

- MFED's failure to provide the list of arrears of revenue for all line Ministries or Offices that generate revenue each year.
- As could be seen only Four Ministries/Offices that submitted their outstanding dues to MFED summed to $453k (page 46 refers). The remaining Ministries/Offices failed to submit 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 favored by Parliament.
- And the breakdown on the listed Ministries/Offices in 2015 were also not made available by responsible officers thus had prevented auditors from confirming such balances.

Based on record available arrears of revenue was decreased from $980,634.17 (2014) to $453,889.10 (2015), thus incurring a reduction in value by $526,745.07.

2014 Implications:

The incomplete list of arrears of revenue would not provide the actual dues to government and could create unfairness on the compliant clients.

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 is losses of 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.

Management response:

Management response was received.

3.13) Statement XV – Development Fund as at 31/12/2015

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 31/12/15.

By looking at the table provided below the balance of the Development Fund for the three consecutive years had fluctuated. In 2015 the total receipts had increased to $52.2m while the expenditure also rose to $47.5m thus resulting in a net balance of $4.7m. The balance of the development fund in 2015 would be $25.9m when adding the closing balance reported in 2014 of over $21.2m.

Table 3.13A: Development Fund Balances for year 2013 - 2015

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

However there is doubt on the accuracy of the figures above because of the following anomalies noted earlier in my audit report as follows:

- The brought forward balance of $15,016,044.24 in 2013 (Refer 2013 Audit Report, page 47).
- Issues/anomalies noted under Special Fund & Statement VI (2013 Audit Report refers)
- Not taken into account all “in kind” aid from Donors which is contrary to Contemporary Accounting Practices.

3.13.3 Un-authorised spending of $15.13m (2014: $2.02m)

Table 3.13B: Un-authorised expenditure by Donors - 2015

LOCAL/OVERSEAS DONORS	REVENUES	EXPENDITURE	Variance
Australia	675,013.69	1,479,898.09	(804,884.40)
Canada	-	12,311.00	(12,311.00)
EU	-	347,048.97	(347,048.97)
GOK	23,675,368.00	28,805,318.00	(5,129,950.00)
ILO	8,391.00	8,629.00	(238.00)
Japan	-	137,069.60	(137,069.60)
Korea	-	50,761.00	(50,761.00)
New Zealand	513,498.00	706,444.00	(192,946.00)
Observer Fund	-	800,235.24	(800,235.24)
Pacific Forum	-	2,053,479.31	(2,053,479.31)
PNG	-	441,385.19	(441,385.19)
Spain	22,886.00	34,746.00	(11,860.00)
SPC	138,880.00	247,957.00	(109,077.00)
SPREP	98,521.00	101,812.76	(3,291.76)
Taiwan	4,699,626.24	9,165,384.75	(4,465,758.51)
Turkey	3,960.00	36,479.00	(32,519.00)
UN Women	-	13,952.00	(13,952.00)
UNDP	158,595.00	179,790.00	(21,195.00)
UNEP	6,755.00	148,592.00	(141,837.00)
UNFPA	56,348.00	77,475.00	(21,127.00)
UNICEF	485,370.00	755,410.00	(270,040.00)
WHO	123,758.00	173,414.65	(49,656.65)
WMO	-	27,538.00	(27,538.00)
Total balance of un-authorised spending	**30,666,969.93**	**45,805,130.56**	**(15,138,160.63)**

(Source: 2015 Annual Account)

Audit noted despite the net saving reported of **$4.69m** (refer 2015 annual account), that all selected donors the authorised allocations thus resulting in an overspending of over **$15.13m.**

Further, the audit also found that some donors have no receipts (revenue) amounts reflected in the receipts column but only payments (expenditure) costs appearing thus raises concern on the accurateness of the data provided. Therefore, management's comment and correct advice is sought to settle this anomaly.

3.13.4 Discrepancy of $3.29m (Receipts against Approved Warrant)

The audit had selected 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. As confirmed the warrant amount approved for the selected items had exceeded the receipts (revenue) resulting in a variance of over $3.9m. As per conveyed by one of the officers from Planning Office, the approved warrant of each project should match the Receipts of same project in all respect, hence the variance noted would raise doubt on the accurateness and reliabilities of the data provided.

Table 3.13C: Comparative table of receipts against approved warrant.

Codes		Titles/Names	Receipts	Approved Warrant	Variances
REVENUE	EXPENDITURE		$	$	$
N2705E027	H2705E027	Reconstruction of Tungaru Rehab	3,896.93	127,412.16	(123,515.23)
N1601A001	H1601A001	PIPA GEFPASProject preparat	507,962.44	566,949.92	(58,987.48)
N2702C037	H2702C037	Kiribati Solar PV Grid (PEC)		2,054,051.21	(2,054,051.21)
N1602D102	H1602D102	Invasion alien species		68,128.35	(68,128.35)
N09012262	H09012262	Disaster Mgt. coastal erosion	30,552.55	1,018,216.00	(987,663.45)
		Total	**542,411.92**	**3,834,757.64**	**(3,292,345.72)**

Explanations on the variances are sought from Ministries concerned.

Management response:

Management response was received.

3.13.5 Non-Availability of Supporting Documents

It was also noted during the audit that the supporting documents for the selected donated funds totaling to $998,548.04 were not made available when requested. Hence made it not possible for the audit team to carry out further testing on such selected donated funds, re details shown below:

Project Name/Title	Details/Reference	Amount in ($)
Reconstruction of Tungaru Rehab	hqpv 711 mpwu 78/15 Betty trad	3,826.41
	hqpv633/6 mpwu224/15 betty cas	5,002.46
PIPA GEFPASProject preparat	hqpv 409/11 melad 247/15 Pipa	18,574.66
	hqpv 409/11 melad 247/15 Pipa	90,796.78
Kiribati Solar PV Grid (PEC)		
	hqpv 367 mpwu 101/15 NBK Corpo	780,015.00
	hqpv 181 mpwu 02/15 Kir Govt n	20,286.81
Invasion alien species		
	hqpv 100 melad 144/15 Eco Ocea	17,550.82
	hqpv 182 melad 102/15 R&D Envi	10,486.89
Disaster Mgt. coastal erosion		
	HQPV601/7 OB68/15 CPP	15,348.21
	hqpv722/5 ob56/15 teatinimaraw	36,660.00
	Total	**998,548.04**

2014 Implications:

Project activities which have been undertaken without having their respective provisions (amount warranted) would contribute to the increase in un-authorised spending of which could have an impact of the development fund as a whole.

Failure to produce the requested supporting documentations would annul the payments been made and the absence of the PV, JV, and so forth would make it difficult for the audit to authenticate the amounts been paid/received.

Recommendations:

MFED should provide valid justification regarding the unauthorised spending reported of $155.25m in respect of other overseas Donors including GOK.

Respective managements through their Project Units should ensure to maintain and update their register/database for recording of incoming general warrant issued from Planning Office for future management/audit references.

(2013 Recommendation) - To avoid the undue level of over expenditure the Ministry concerned should put in place a strong internal instrument to control and monitor to a minimal level of expenditure especially to Kiribati Government funded projects as well as overseas donors to save future grievances.

Management response:

Management response was received.

3.14) Statement XVI – Government of Kiribati Suspense Account as at 31/12/15

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 2014 to 2015 respectively.

Findings and Analysis:

Code	Description	2015	2014	Variance
Z	Suspense Account	$ 4,878,902	$ 4,885,005.56	$ 6,103.56

As previously noted in my audit report the Suspense Account was created for the first time in the Annual account 2013 to account 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 reports still exist in 2015 details of which are appended below:

- In the 2015 Annual account the balance of the suspense account had decreased by $6,103.56 ($4,885,005.56 - $4,878,902). However, the audit had just confirmed that this decrease was intentionally made to balance the trial balance, re note sighted stating that this transfer would balance the then imbalance account (Page 61 Annual Account 2015 refers).
- Audit noted the amount for suspense account stated in the Balance Sheet (page 25) amounted to $4,879,902.28 was different from the amount reflected under statement XVI for suspense account (page 61) of $4,878,902, resulting in a variance of $1000.28.
- The verification on the balances under the suspense account was not possible due to the absence of proper records held by MFED including physical supporting documentations.
- To date, MFED still await 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 be possible.

Recommendation:

MFED has to write to PAC for approval of a write-off on all balances reflected under Suspense Account which could not be recovered since these figures related to long past years, over 10 years, the substantiation of which could not be possible.

Management has to provide an explanation on the decrease in value of the suspense account and the variances, as noted above, in the suspense account appearing in the Balance Sheet against those shown under Statement XVI.

Management response:

Management response was received.

3.15 Statement XVII: Unauthorised Expenditure by Ministries as at 31/12/15

Findings and Analysis:

Table 3.15 A: Summary of un-authorised expenditure by Ministries.

Code	Ministry Name	Estimate	Actual	Under/(Over)
E08	**OPL**	326,502	403,843	**- 77,341**
E09	**OB**	1,708,761	1,797,285	**- 88,524**
E10	**PSO**	602,290	637,668	- 35,378
E11	**JUDICIARY**	1,650,030	1,654,347	- 4,317
E12	**KPPS**	7,262,784	7,329,687	**- 66,903**
E13	**PSC**	241,818	256,698	- 14,880
E14	**MFAI**	2,178,571	2,745,375	**- 566,804**
E20	**OAG**	689,188	708,142	- 18,954
E22	**MHMS**	15,522,764	17,792,976	**-2,270,212**
E26	**MWYSA**	1,524,060	1,531,335	- 7,275
E27	**MPWU**	2,386,335	2,390,739	- 4,404
E28	**MLHRD**	3,684,455	3,684,938	- 483
E30	**DEBT SERVICING**	667,800	1,248,999	**- 581,199**
	TOTAL	**38,445,358**	**42,182,032**	**- 3,736,674**

As could be witnessed from the above table the total unauthorised expenditure by the listed Ministries including Debt Servicing was **$3.7m.**

Audit also noted that there were reasons highlighted in the Annual Account 2015 (page 18 refers) regarding the MHMS overspent which state; "*…the overspent of MHMS was due to the very high spending on personal emoluments and supplies for instance pharmaceutical products, medical equipment and so forth. Hence given the importance of health (or life) one can excuse the MHMS for overspending however the other Ministries overspending warrants further enquiry…"* Therefore respective managements quoted in the statement are invited to provide comments.

Note: *The above table shown is also the same table appearing under Statement II: Expenditure – Unauthorised spending by Ministries (ref: 3.2.3 above).*

Management responses:

Management response was received.

3.16) Statement XIX – Revenue Equalization Reserve Fund (RERF)

The audit has never been conducted on this Fund however findings and analysis, as noted hereunder, were based on the accounts of the Fund provided by the National Planning Division (NEPO) of MFED.

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.

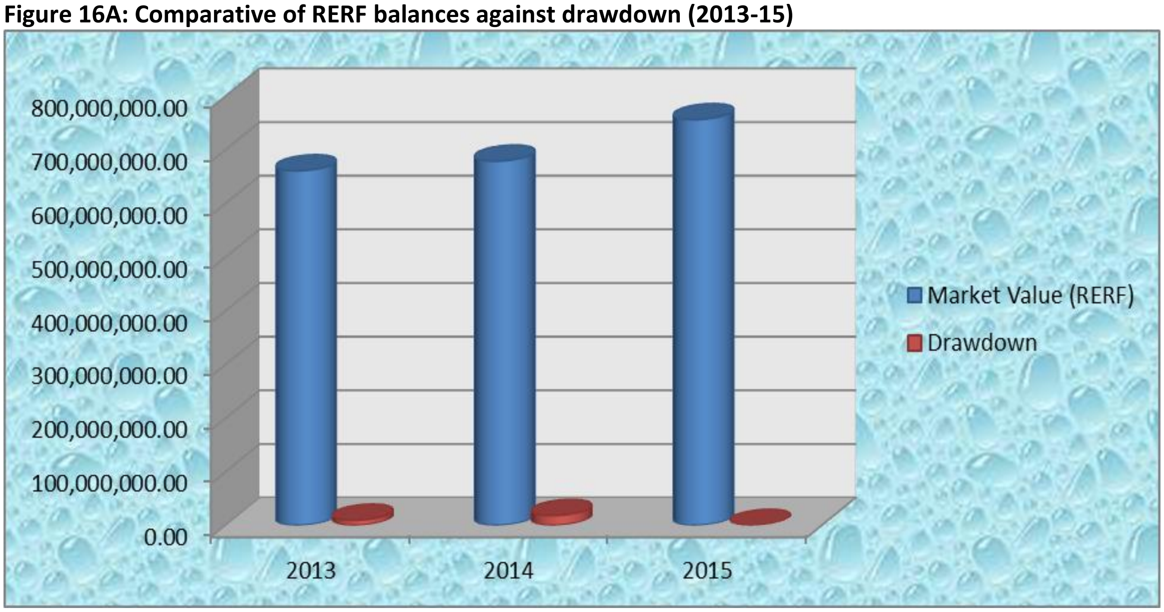
3.16.2 RERF Analysis – Market Value & Drawdown Summary (2013-15)

Table 3.16A: Summary of Market Value & Drawdown for 2013 – 2015

Year	Market Value (RERF)	Drawdown (RERF)
2013	**660,907,092.58**	**9,623,224.00**
2014	**678,971,072.93**	**18,370,000.00**
2015	**756,259,202.00**	**Nil**

(Source: Investment Unit, NEPO, MFED)

Figure 16A: Comparative of RERF balances against drawdown (2013-15)



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 2013 up to 2015. As witnessed the value of the RERF had increased from $678,971,073 (2014 to $756,259,201.94 in 2015, thus signifying an enormous escalation by $77,288,129, or 10.22% from 2014 when compared to an increase in 2014 of $18.06m.

It is evident from records the main reason for such huge increase was the absence of a drawdown or transfer from the RERF thus marking 2015 as being the first year over a decade Government had not made any withdrawal from the RERF. Therefore all major contributors to the generation of Government revenue should be applauded for such remarkable achievement.

3.16.3 Total Income – HSBC & NICAM for the year ended 31/12/15

The total income disclosed in the annual account 2015 for HSBC and NICAM was **$65.04m** and **$5.95m** respectively and when adding together escalated the total income as at end 2015 to **$71m**. For comparison of the end of year achievements the balance in 2014 was **$45.82m** thus resulting in an increase of over $25.18m.

It is pleasing to note an improvement in the performance of NICAM as in past years losses were reported but this year, 2015, it has generated a profit of $5.95m. This is an indication of proper control and monitoring been exerted by Government over its Fund Managers and therefore those involved in monitoring the performance of the Fund should be applauded for such remarkable improvement.

3.16.4 Injections (Deposit) to the RERF 2015

The audit detected that the classification by the Accounts Division and NEPO was slightly different with regards to payments made (injections) to the RERF. According to the Accounts Division's records the total amount transferred to State Street as a contribution to the RERF was $175m whereas NEPO advised and clarified that $50m was the actual amount that reached the RERF while $80m stays at the Cash Trust Fund (State Street) and $45m was not yet recorded. It was also advised by NEPO that government monies stays at the State Street are not considered as part of the RERF except for HSBC and NICAM.

Further, as also elaborated in the Annual account 2015 the $45m noted above would be reflected in the subsequent year i.e. 2016 as the ANZ Bank paid out monies in small tranches at different dates hence the $45m was in the last payment day or two of the year resulting in not reaching State Street within the current year as expected.

In conclusion, if we take the $175m as the contribution to the RERF the market value of the RERF as at 31/12/15 would be $837,109,589.00, resulting in an increase of $158.13m (or 23%) was realised when comparing with the RERF Balance reported in 2014 of $678,971,072.93. However, as per advice from NEPO the actual value of the RERF in 2015 was $756,259,201.94 and not $837,109,589 meaning HSBC and NICAM are considered only as the RERF at this point of time.

3.16.5 Management Fees for the year ended 31/12/2015

The expenses for the RERF consisted of various fees such as: management fees, custodian fees, tax expenses and other fees. As noted the total expense in 2015 for HSBC was $1.36m (2014: $1.11m) whereas NICAM had reached the sum of $218k (2014: $0.49m) thus contributing to the total expense of $1.58m.

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

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.

Recommendations:

Management should ensure appropriate actions are put in place to effect the exemption of tax by partner countries and, if possible, to pursue refund 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:

Management response was received.

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 2015 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 write-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	Placed 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 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	

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	

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	

TOTAL	**LOSSES OF PUBLIC FUNDS**	**$589,615.37**

3. Annual Account Statements

Statement I: Government of Kiribati Balance Sheet

(as at 31st December)

Statement		GLcode	GroupDescription	2015	2014
	BS				
	Asset				
		I	Telmos Paid	$241,690,807.83	$217,551,011.12
VII		J	Other Advances	$830,371.73	$829,171.73
VII		K	Sundry Advances	-$387,182.72	-$412,492.10
VII		L	Imprest and Salary Advances	$11,674,504.73	$10,718,866.72
VII		M	Bank Accounts & Cash	$67,927,213.20	$117,641,925.76
XI		V	Investments	$849,465,605.29	$691,513,817.10
XVI		Z	Suspense Account	$4,879,902.28	$4,885,005.56
				$1,176,081,222.34	**$1,042,727,305.89**
	Liability				
IX		O	Sundry Deposit	-$5,115,516.81	$863,582.04
IX		P	Telmos Received	-$236,110,163.03	-$218,345,450.54
		Q	Salary Allotments	-$21,517.35	-$21,722.35
		S	Deceased Native Estate (DNE)	-$1,020,977.67	-$1,181,224.36
		T	SAYE	-$12,901.65	-$10,698.15
				-$242,281,076.51	**-$218,695,513.36**
			Net Asset	**$933,800,145.83**	**$824,031,792.53**
		ATTRIBUTABLE TO:			
	Consolidated Fund				
II & III	**Expenditure**				
		E	Recurrent Expenditure	$308,231,077.11	$130,254,787.84
II & III	**Revenue**				
		C	Recurrent Revenue	-$253,315,089.80	-$198,239,057.09
			Net Consolidated Fund	**$54,915,987.31**	**-$67,984,269.25**
	Development Fund				
XVI	**Expenditure**				
		H	Development Expenditure	$47,519,405.86	$25,938,157.63
XVI	**Revenue**				
		N	Development Revenue	-$52,212,972.20	-$35,784,375.47
			Net Development Fund	**-$4,693,566.34**	**-$9,846,217.84**
V	**Special Funds**				
	Special Funds				
		F	Special Funds	-$984,022,566.81	-$746,201,305.45
			Special Funds	**-$984,022,566.81**	**-$746,201,305.45**
			Total Equity	**-$933,800,145.84**	**-$824,031,792.54**
			Balance	*-$0.01*	*-$0.01*

Note: The balance sheet shown above has a slightly different presentation to last year balance sheet namely that this balance sheet follows closely the GL coding structure, but showing only the main GL codes (e.g. I, V, E, C, F, etc.). It does not show the composition or the breakdown of the main GL codes. For instance, under the "Asset" category, "Investment" total is shown whereas in the past reports this category is further split into "RERF", "Land", etc. Likewise "Special Funds" total is shown rather than "RERF" and "Other Funds". The reason is that the composition or the breakdown of these GL codes will be shown in subsequent tables or in other "Statements". The intention here is basically to present the main GL groups or accounts within the balance sheet, and the subsequent tables will elaborate on these main GL groups.

25

5.3 Appendix Three: Copy of Cap 79, Schedule 2

5.4 Appendix Four: Copy of Cap 79, Schedule 2

SCHEDULE 2

[illegible]

RULES FOR THE OPERATION OF THE DEVELOPMENT FUND

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Statement XIX: Revenue Equalization Reserve Fund

(As at 31 December 2015)

TYPES OF INVESTMENT BY FUND MANAGERS	Q4G1 EQUITIES HSBC	Q4G2 BONDS HSBC	Q4G1&Q4G2 EQUITY&BOND HSBC	Q4G3 EQUITY&BOND NICAM	Q4G4 State Street Custodians	Q4G3 & Q4G4 Nicam & State street	TOTAL ASSETS Invested
OPENING MARKET VALUE	**222,452,251.39**	**177,461,763.53**	**399,914,014.92**	**268,939,339.71**	**10,117,718.30**	**279,057,058.01**	**678,971,072.93**
CONTRIBUTIONS	24,999,975.00	4,999,975.00	29,999,950.00	20,000,000.00	80,000,000.00	100,000,000.00	129,999,950.00
CASH TRANSFER IN	10,999,975.00	30,200,000.00	41,199,975.00	-	8,057.44	8,057.44	41,208,032.44
CASH TRANSFER OUT	-30,200,000.00	-10,999,975.00	-41,199,975.00	-	-8,057.44	-8,057.44	-41,208,032.44
ASSET TRANSFER IN	126,725,000.00	-	126,725,000.00	356,605,685.64	263,980,000.00	620,585,685.64	747,310,685.64
ASSET TRANSFER OUT	-20,000.00	-204,450,893.34	-204,470,893.34	-263,960,000.00	-278,879,792.30	-542,839,792.30	-747,310,685.64
LESS DRAWDOWNS	-	-	-		-	-	-
	354,957,201.39	-2,789,129.81	352,168,071.58	381,585,025.35	75,217,926.00	456,802,951.35	808,971,022.93
ADD: INCOME							
Dividend Income	6,656,861.27	-	6,656,861.27	-	-	-	6,656,861.27
Interest Income	33,592.41	5,207,979.97	5,241,572.38	1,897,007.99	5,721,518.29	7,618,526.28	12,860,098.66
Other Income	18,730.98	1,335.24	20,066.22	7,351.40	-	7,351.40	27,417.62
Settlement Variance	0.01	132.24	132.25	1.00	-	1.00	133.25
Currency Gain/Loss Security Settlement	2,556,635.84	273,419.80	2,830,055.64	-2,190,292.50	-	-2,190,292.50	639,763.14
Currency Gain/Loss on FX Settlement	-2,862,631.48	-9,203,434.42	-12,066,065.90	1,967,286.37	-	1,967,286.37	-10,098,779.53
Currency Gain/Loss on Interest Received	-	2,532.00	2,532.00	-	-	-	2,532.00
Currency Gain/Loss on Dividend received	31,427.68	-	31,427.68	-	-	-	31,427.68
Currency Gain/Loss on Tax refund received	-	-	-	-	-	-	-
Currency Gain/Loss on Margin Variation	-	-	-	-	-	-	-
Average Gain/Loss on currency disposal	195,758.73	30,769.20	226,527.93	212,017.37	-	212,017.37	438,545.30
Average Currency Gain/Loss	25,412,137.32	12,863,550.90	38,275,688.22	-1,431,801.73	-	-1,431,801.73	36,843,886.49
Average Security Gain/Loss	16,182,763.71	7,644,750.58	23,827,514.29	-224,883.07	-	-224,883.07	23,602,631.22
Miscellaneous Income	-	-	-	55.00	-	55.00	55.00
Total Income	**48,225,276.47**	**16,821,035.51**	**65,046,311.98**	**236,741.83**	**5,721,518.29**	**5,958,260.12**	**71,004,572.10**
LESS: EXPENSES							
Management Fees	439,707.67	330,875.09	770,582.76	41,801.70	95.14	41,896.84	812,479.60
Custodian Fees	230,305.24	109,938.30	340,243.54	87,200.54	88,961.13	176,161.67	516,405.21
Tax Expenses	283,667.20	-451.38	283,215.82	-	-	-	283,215.82
Other Fees	-31,778.68	-	-31,778.68	-	-	-	-31,778.68
Total Expenses	921,901.43	440,362.01	1,362,263.44	129,002.24	89,056.27	218,058.51	1,580,321.95
Net Income	**47,303,375.04**	**16,380,673.50**	**63,684,048.54**	**107,739.59**	**5,632,462.02**	**5,740,201.61**	**69,424,250.15**
						-	-
LESS: OPENING UNREALIZED APP/DEP	27,054,416.23	12,062,877.91	39,117,294.14	-2,476,575.40	-	-2,476,575.40	36,640,718.74
ADD: CLOSING UNREALIZED APP/DEP	-4,869,808.65	-0.01	-4,869,808.66	224,844.28	-	224,844.28	-4,644,964.38
			-			-	-
Net Gain/Loss on Unrealized APP/DEP	-31,924,224.88	-12,062,877.92	-43,987,102.80	2,701,419.68	-	2,701,419.68	-41,285,683.12
						-	-
CLOSING MARKET VALUE	**370,336,351.55**	**1,528,665.77**	**371,865,017.32**	**384,394,184.62**	**80,850,388.02**	**465,244,572.64**	**837,109,589.96**
EQUITIES	369,251,805.60		369,251,805.60	-	-	-	369,251,805.60
FIXED INCOME/BONDS		-	-	377,344,631.52	-	377,344,631.52	377,344,631.52
SHORT TERM INVESTMENT			-		40,844,966.39	40,844,966.39	40,844,966.39
CASH EQUIVALENTS	641,947.41	1,528,253.63	2,170,201.04	3,078,237.68	40,002,530.01	43,080,767.69	45,250,968.73
CASH/RECEIVABLES/PAYABLES	442,598.54	412.14	443,010.68	3,971,315.42	2,891.62	3,974,207.04	4,417,217.72
	370,336,351.55	1,528,665.77	371,865,017.32	384,394,184.62	80,850,388.02	465,244,572.64	837,109,589.96

Source: Compiled By Accounts Division staff but based on Investment Unit, NEPO, documents.

62

Overall Fund Performance

It is important to know that although the following analysis talks about HBSC and NICAM, both of these fund managers have been replaced by two other fund managers towards the end of 2015. With the advice of the World Bank two other fund managers have been selected and are now managing the funds once held by HSBC and NICAM—these are BlackRock and Northern Trust. The funds were transferred initially to State Street while the search for the new fund managers was on. The following analysis and discussion is based on the RERF account shown above and from the advice of NEPO staff.

According to the above table the market value of the RERF as at December 2015 is $837,109,589—an increase of $158,138,517.03 or 23% over **the 2014 figure of $678,971,072.93**. But as advised by NEPO, **the actual value of the RERF in Dec 2015 is <u>$756,259,201.94</u>** (and not $837,109,589) which means only NICAM and HSBC are considered as the RERF this time—i.e. before, State Street used to be classified under the RERF. At the same time NEPO advised that over $80 million is with Cash Trust Fund and they said this is not part of the RERF. If we add this $80 plus million with the RERF balance we will get $837 million as the value of total investments abroad—which is almost the same as the closing balance shown in the table above. This excludes the $45 million paid to State Street in the last month of 2015 and which presumably will appear in State Street 2016 account.

Now if we take the opening balance of the RERF as $678,971,073 and the closing balance as $756,259,202 then the increase in the RERF value is $77.3 million. But we know $50 million was deposited into fund in the year therefore the increase in the fund value is actually just over $27 million (or 4%).

There is no drawdown from the fund in 2015, instead the government paid into the fund $130 million during the year (see table above). As a matter of fact the government actually paid into the fund $175 million in 2015 (i.e. this is recorded in the government 2015 GL) but ANZ bank paid out the money in small tranches at different dates and the last payment ($45 million) was in the last day or two of the year and apparently this last payment of $45 million did not reach State Street within the year. This $45 million therefore is likely to appear in State Street (or the new fund managers) account for 2016.

The split of the $130 million paid into the fund in 2015 is (HSBC $30 million, NICAM $20 million, and State Street (or Cash Trust Fund) $80 million). This $80 million is to be considered as "not part of the RERF" according to NEPO.

It is important to note that the Accounts Division and the Planning Office (NEPO) classification of the RERF payments, at least for the year 2015, is slightly different. While the Accounts Division considers the contribution to the RERF as all payments made to State Street, which is $175 million in all, NEPO advised and clarified that $50 million goes to the RERF while $80 million stays at the Cash Trust Fund (not part of the RERF), and $45 million not yet recorded. In other words, out of the $130 million that the Accounts Division paid to State Street in 2015 only $50 million ended up in the RERF. If the $45 million stays with State Street, then the balance of the fund with the Cash Trust Fund in 2016 will reach $125 million, or slightly more if interest is included, and whether this remains in the Cash Trust Fund, or transferred to the RERF at some later stage, is not yet known. Suffice here to say that a significant amount of government cash has been transferred or relocated in the year and extra effort should be made to trace and monitor all the cash movements carefully. With hundreds of millions of dollars involved, it is easy to lose track of a couple of millions of dollars.

5.5 Appendix Five: Deposits with the Government of Kiribati - 2015

Statement IX (a): Deposits with the Government of Kiribati

(at 31st December)

	Allocation	Description	2015	2014
1 DNE				
	S0058	DNE	-$1,020,977.67	-$1,181,224.36
2 Public officers				
	T0059	SAYE	-$12,901.65	-$10,698.15
	Q0057	Salary allotment	-$21,517.35	-$21,722.35
		subtotal	**-$34,419.00**	**-$32,420.50**
3 Sundry deposits				
	O5000	Sundry deposit4	$39,268.40	$0.00
	O0057	Sundry deposit3	$0.00	$0.00
	O0050	Sundry deposit2	-$5,154,639.67	$863,727.58
	O0000	Sundry deposit1	-$145.54	-$145.54
		subtotal	**-$5,115,516.81**	**$863,582.04**
4 Telmos				
	P0053	Telmos received (PF27)	-$96,195,722.88	-$78,437,387.09
	P0052	Old telmos received 2 (PF27)	-$17,925,600.72	-$17,925,600.72
	P0051	Old telmos received 1 (PF27)	-$121,988,839.43	-$121,982,462.73
	I0053	Telmos paid (PF25)	$144,240,516.77	$125,050,453.33
	I0052	Old telmos paid 2 (PF25)	$16,042,483.68	$11,092,750.41
	I0051	Old telmos paid 1 (PF25)	$81,407,807.38	$81,407,807.38
		subtotal	**$5,580,644.80**	**-$794,439.42**
		TOTAL	**-$590,268.68**	**-$1,144,502.24**

Notes:

1) *The details of "Sundry deposits" is provided below.*

2) *The entries for the telmos are no longer valid except for the P0053 and I0053. But these are still on the GL but once the GL is cleaned these will no longer appear (i.e. the P0051, P0052, I0051 and I0052). These are the legacies of problems associated with telmo transactions. The positive $5.58 million implies that the government is paying out more monies than what people pay in but caution should be exercised here because telmo transactions is still undergoing improvement and there are still "big gaps" like missing telmos from the Line and Phoenix group, the delay of returns from outer islands, etc.*

3) *DNE stands for Deceased Native Estate, and is basically an account for the monies of the deceased that will be transferred to their next of kin or people named in their will. This is one of the clearing accounts.*

38

5.6 Appendix Six: Public Debt as at 31/12/15

Statement XIII: Public Debts (as at 31st December 2015)

Year	Purpose of the Loan	Original Amount Borrowed Foreign Currency	Principal Balance @ 31/12/2013 in SDR	Amount Repaid in Financial Year 2014 in AUD	Principal Balance @ 31/12/2014 in SDR	Principal USD Equivalent @ 31/12/2014	Exchange Rate 31/12/14*	Amount Outstanding in AUD @ 31/12/2014	2015 Loan Repayment Actual	Principal Balance @ 31/12/2015 in SDR	Principal USD Equivalent @ 31/12/2015
1985	Asian Development Bank Loan No.281 KIR (SF) equivalent US$515,729.79 for Construction of Betio/Bairiki Causeway Principal repayment over 30 years commencing May 1987 interest free loan, with 1% service charge	US$515,730	24,955	14,947	16,755	24,268	0.8202	29,588	40,219	8,555	11,865
1988	Asian Development Bank Loan No.724 KIR (SF) equivalent SDR 496,105.53. On lent to Betio Shipyard Principal repayment over 30 years commencing April 1985 interest free loan, with 1% service charge	SDR496,105.53	217,938	39,431	198,138.45	286,980	0.8202	349,890	41,124	178,338	247,330
1989	Asian Development Bank Loan No.786 KIR (SF) equivalent SDR 574,425.15, on lent to PUB foe Power Generation Principal repayment over 30 years commencing December 1996 interest free loan, with 1% service charge	SDR574,425.15	267,382	43,149	245,981.94	356,275	0.8202	434,376	46,011	224,582	311,464
1990	Asian Development Bank Loan No.922 KIR (SF) equivalent SDR 566,970.06 on lent to PUB for Power Distribution Principal repayment over 30 years commencing March 1999 interest free loan, with 1% service charge	SDR666970.06	435,036	58,576	406,035.97	588,094	0.8202	717,013	62,956	377,036	522,896
1991	Asian Development Bank Loan No.1039 KIR (SF) equivalent SDR 722,000.00. As at 31/12/92 only part draw down. On lent to Development Bank of Kiribati. Principal repayment over 30 years commencing May 2001 interest free loan, with 1% service charge	SDR722000	406,063	49,516	382,053	553,372	0.8202	674,680	36,059	358,063	496,583
2000	Asian Development Bank Loan No.1648 KIR (SF) for SDR 7,271,000 purpose is to finance Sanitation, Public Health Environment project (SAPHE). Contract agreement between Kiribati Government and Original Engineering Company signed on 24th May 2000. DF:12/01VX	SDR7,271,000	6,798,839	382,887	6,547,839	9,628,597	0.8202	11,739,328	418,313	6,496,839	9,010,206
2011	Asian Development Bank Loan No.2718 KIR (SF) for SDR 7,621,000signed on 17 March 2011 purpose is to support the Kiribati Road Rehabilitation project. 7 year grace period with interest of 1% during the grace period and 1.5% afterwards. The loan will be paid over 30 years	SDR7,621,000	2,582,373		5,086,674.45	7,367,438	0.8202	8,982,489	8,403	6,040,206	8,376,920
2012	Asian Development Bank Loan No 2795 KIR (SF) for SDR 4.7 million purpose is for the South Tarawa Sanitation Improvement Sector Project. Commenced 3 May 2012. 7 year grace period with interest of 1% during the grace period and 1.5% afterwards. The loan will be paid over 30 years.	SDR4,700,000	0		319,722.18	463,079	0.8202	554,593		1,255,424	1,741,098
		Euros	Euros								
1999	European Investment Bank Loan No.70372 to be used exclusively of Finance an increase in the governments participation in the share capital of the Development Bank of Kiribati Principal repayment over 5 Years commencing December 2010. Interest rate of 1% levied on outstanding loan amount	500,000	100,000	149,285			0.6746				
2014	International Cooperation and Development Fund Loan No for the repair and upgrade of Bonriki International Airport. Commenced 6 August 2014. 7 year grace period with a commitment fee of 0.75% interest and afterwards 1.5%. The loan will be paid over 30 years.	AUD 20,227,983						3,068,407	201,286		
	JPY Commission			1,427					68,582		
	Bank Charges			222,807					121,531.47		
	Civil Suites								38,029.47		
	Interest Components - SOE loan repayments			308,802							
	Principal Components - SOE Loan repayments			8,816,436							
	Total Public Debts Payments			10,087,262	13,303,210	19,268,103		26,560,364	1,082,514	14,939,043	20,718,361

45