

REPORT OF AUDITOR GENERAL



ON THE ACCOUNTS OF KIRIBATI GOVERNMENT ANNUAL ACCOUNT

PART 2: STATEMENTS I TO XIX FOR THE YEAR ENDED

31 DECEMBER 2017

ACRYNOYMS

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

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I. EXECUTIVE SUMMARY

i) SCOPE AND METHODOLOGY

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

ii) FINANCIAL ANALYSIS

a) Budget Result (Expenditure and Revenue Budgets)

- The revenue collected for the year (2017) was \$238m an amount surpassed the collection in 2016 of \$209m, thus incurring an increase of \$29m. The bulk of the increase in the revenue caused mainly by the growth in the fishing license revenue.

b) Development Fund (Receipts and Payment)

The total development fund receipts in 2017 had increased to \$84,789,142.72 2016(\$57,495,227.86) while total expenditure rise to \$51,086,091.15 2016 (\$44,379,180.97) thus resulting in the increase in a net balance of \$33,703,051.57. The total development fund at the year-end 2017 should be \$72,750,930 when aggregating it with the closing balance reported in 2016 of \$39,047,878.43. Our gratitude goes to overseas donors for their continued support to the Government of Kiribati.

c) Revenue Equalization Reserve Fund (RERF)

The government should be embraced for remarkable performance that had led to accumulating funds in the RERF by not activating any withdrawals within three consecutive years, i.e. from 2015 to 2017. There was a transfer made from RERF State street to the Cash trust of \$57m plus the HSBC Account of \$18,478.29 which should be treated as Loss on Unrealized and this had decrease the value to \$74m.

d) Fishing License Revenue

The actual revenue collected had increased by \$25.6m (\$143,295,455 in 2016 less \$169,148,022 in 2017). As compared with the previous year, the revenue earned from fishing license fluctuate over the year and if this continues in future years this would call for consideration of other revenue sources to either recoup the loss in revenue or device control measures that will assist in reducing the actual expenditure for whole of government.

e) Value Added Tax (VAT)

Based on the financial analysis, the total VAT collected in 2017 after its fourth (4) year of implementation has risen from \$15,258,746(2016) to \$17,122,318.76(2017) incurring an increase of over by \$1,863,572.76, an amount outweigh the increase realized in 2016 of \$710,342. 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 2017, the government had approved an estimates total budget for employees (i.e. **salaries, \$38,781,960.14 + temporary \$2,447,695.68 and wages \$90,215.78**) was \$41,319,871.60. The actual expenditure incurred during the year (2017) was \$40,656,093.06 (i.e. **salaries \$38,197,300.77 + temporary \$2,379,798.48 + wages \$78,993.81**) thus resulted in net saving of \$663,778.54 over the total budget.

g) Government Assets Management

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

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

The whole of government budget estimate against actual expenditure depicts the level of expenditure from the highest to the lowest, re annual account page 5. The analysis specifically highlighted the top 6 highest outputs in expenditure which are as follow; **Salaries \$41m, leave grants \$6m, Allowance \$4m, Land rent \$4m, External Travel \$3m and local services \$3m**. The purpose of this insertion for the first time is to assist future audits on the performance of service deliveries by civil servant so value for money is realized and public funds are spent economically, i.e. not wastage, and in the most efficient and effective manner.

II. FOREWORD

In accordance to Section 39 of the Public Finance (Control and Audit) Act 1976 the Annual Account of the Republic of Kiribati should be presented and submitted to the Auditor General within six months after the end of the financial year 31st December for scrutiny purposes. The 2017 Annual Account was submitted on the **29 June 2017**, which is within the statutory timeframe. Due to the inconsistent figure disclosed in the annual account (Management report) as a result of the preliminary testing. The audit had agreed to deferred the audit until the account had been adjusted and amended. On 19th October 2018, the revised management report had re-submitted to KAO for the continuation of the audit thus caused the delay in submitting Whole of Government audited annual account 2017.

The 2017 annual accounts were prepared under the Cash Basis Accounting and comprised of the Balance Sheet or Financial Position (Statement I refers) and Statements of Income (Revenue) and Expenditure or Financial Performance (Statement II refers). The disclosure of the Annual Accounts follows the requirement of the specific provisions of the Public Finance (Control and Audit) Act, 1976 as amended.

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

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

Despite above comments, it was, however, pleasing to note a substantial increase in Government's revenue when comparison is made with previous year's total revenue due to the notable improvement in the revenue collection from fishing license. The net saving reported this year by Ministries had increased from **\$3.4m (2016) to \$6.6m (re comment under ii) a) above)** respectively and that also included the unused budget provisions for Other Government Expenses.

Because of the issues repeatedly detected, the position of the 2017 Annual Account was still far from attaining its objectives of relaying reliable information on the stewardship of the scarce resources of the Republic of Kiribati.

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

III. AUDIT OPINION

We have audited the Government Annual Account for the year ended 31 December 2017. The preparation and presentation of the accounts are the responsibility of the Accountant General who transmitted them to Audit Office in accordance with Cap. 79 Part VI of the Public Finance (Control and Audit) Ordinance 1976. It is also the responsibility of the Accountant General to ensure the information contained therein, as well as the existence of internal controls, should be fully effective for the prevention of error or fraud.

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

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

The accounts, however, does not purport to reflect the total activity of Government and, as it is prepared essentially on a modified cash basis, it does not disclose at year end the unpaid commitments. Further it also does not disclose Government Fixed Assets and Liabilities or project funds received outside of the Government No. 4 bank account neither opening balances of such at the beginning of the year 2017.

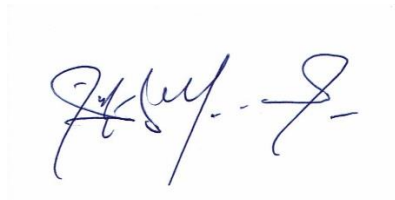
Qualifications

- Under-collection of revenue by some major source of revenue in the sum of \$54k (Open ship registration), \$34k (Nasda) and \$639k (Dividends)- (refer section 3.1.1)
- Shortfall of revenue by Ministries which aggregating to \$88k for 2017. (refer section 3.1.2)
- Unauthorized spending by Ministries for year ended 31/12/2016 amounted to \$245k (refer section 3.2.4)
- Unbudgeted and unutilized of approved provisions for ADB loan (refer section 3.2.6)
- There was waste incurred when KPF was over paid by \$46,627.74 (refer 3.2.11)
- The debit balance of local STABEX fund (refer section 3.3.)
- Incongruities/Issues detected when performing audit testing of the Government NO.1 and NO.4 (refer section 3.4.2.1 to 3.4.3.7)
- The unreconciled balance of Government No.5 PPI of \$2,341,042.05(refer 3.4.4)
- The unreconciled and incomplete bank reconciliation for KHC bank account (section 3.4.5 refers)
- Anomalies/issues repeatedly detected under Outer Island and Cash in transit (Consolidated Fund (section 3.4.6 to 3.4.7- State fund).
- Anomalies/issues repeatedly detected under Advances from Consolidated Fund (refer section 3.5.3, 3.5.5 and 3.5.6)
- Audit issues noted under Statement IX: Deposits (refer to section 3.7.2.-3.7.4).

- The clearing off the Escrow Fund \$66k under Statement XI from the record under other investment without notes and the transition of investment with HSBC \$18,478.29 (under RERF) as treated as loss. (refer to section 3.9)
- Anomalies noted for the none disclosure of figure in suspense account which had not agree via the note provided and trial balance.
- Government total accumulating arrears brought forward from previous years totalled up to \$58m (refer section 3.12)
- Un-authorized spending of \$730k (section 3.13.13 refers)
- Overpayment of 412k plus discrepancy errors of 4.8m (section 3.13.4)
- Anomalies variances of \$7,110 (section 3.15)
- Variances of \$2,955 and omitted of 210.35 (section 3.16.6 and annual account Statement xix)

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.



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Mr Eriati Tauma Manaima
Auditor General

IV. COMPLIANCE WITH LEGAL REQUIREMENT

I) LEGISLATION COMPLIANCE SYSTEMS

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

II) BREACHES OF SIGNIFICANT LEGISLATION

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

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

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

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

V. OVERVIEW

This report is part 2 of the Auditor General report on the Annual account of the Government of Kiribati and it presents the results of audit findings for **Statements I to XIX** aligned with the contents of the Annual Account 2017 provided by MFED (Balance Sheet). Recommendations given in this report which aimed at improving programs and operations and lend to providing better services to the public are the bottom lines of our audit work.

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

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

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

1) STATEMENT I: BALANCE SHEET AS AT 31/12/17**Findings and Analysis:****1.1 GOVERNMENT OF KIRIBATI Assets and Liabilities**

In accordance with Cap 79, Section 40(i), the Accountant General is required within six months after 31st December to transmit the Balance Sheet as part of the Public Account to the Auditor General for scrutiny purposes. At the end of this fiscal year, 2017, the Balance Sheet for Government of Kiribati (GOVERNMENT OF KIRIBATI) held and incurred the following assets and liabilities.

Table 1.1 A: GOVERNMENT OF KIRIBATI Assets and Liabilities (2015-2017)

Description	FY 2015	FY 2016	FY 2017	16(inc)/dec	17 (inc)/dec
ASSETS					
INVESTMENT					
RERF	\$837,109,589.96	\$925,965,507.78	\$942,466,355.32	-\$88,855,917.82	-\$16,500,847.54
Land in Fiji	\$9,300,180.00	\$9,300,180.00	\$9,300,180.00	\$0.00	\$0.00
PIPA Trust fund	\$2,623,224.00	\$2,623,224.00	\$2,623,224.00	\$0.00	\$0.00
Other investment	\$432,611.33	\$432,611.33	\$366,074.57	\$0.00	\$66,536.76
	\$849,465,605.29	\$938,321,523.11	\$954,755,833.89	-\$88,855,917.82	-\$16,434,310.78
CASH					
Cash at bank and on hand	\$66,317,287.20	\$112,501,558.92	\$228,285,569.79	-\$46,184,271.72	-\$115,784,010.87
Cash in transit	\$1,609,926.00	\$2,572,977.84	\$5,495,817.94	-\$963,051.84	-\$2,922,840.10
	\$67,927,213.20	\$115,074,536.76	\$233,781,387.73	-\$47,147,323.56	-\$118,706,850.97
ADVANCES					
Other Advances	\$830,371.73	\$830,371.73	\$770,607.50	\$0.00	\$59,764.23
Imprest and Salary Advances	\$11,674,504.73	\$12,538,634.61	\$13,208,738.20	-\$864,129.88	-\$670,103.59
Sundry Advances	-\$387,182.72	-\$235,175.13	-\$183,889.74	-\$152,007.59	-\$51,285.39
Total Advances	\$12,117,693.74	\$13,133,831.21	\$13,795,455.96	-\$1,016,137.47	-\$661,624.75
Telmos Paid	\$241,690,807.83	\$269,599,516.85	\$13,315,368.04	-\$27,908,709.02	\$256,284,148.81
Suspense account	\$4,879,902.28	\$4,881,972.70	\$10,024,955.41	-\$2,070.42	-\$5,142,982.71
TOTAL ASSETS	\$1,176,081,222.34	\$1,341,011,380.63	\$1,225,673,001.03	-\$164,930,158.29	\$115,338,379.60
LIABILITIES					
DEPOSITS					
Deceased Native Estates	-\$1,020,977.67	-\$1,253,402.14	\$1,192,546.05	\$232,424.47	-\$2,445,948.19
Salary Allotments & SAYE	-\$34,419.00	-\$36,809.00	\$8,785.71	\$2,390.00	-\$45,594.71
Sundry deposits	-\$5,115,516.81	-\$10,075,040.55	-\$1,011,420.73	\$4,959,523.74	-\$9,063,619.82
Telmos Received	-\$236,110,163.03	-\$258,394,174.02	\$4,711,437.68	\$22,284,010.99	-\$263,105,611.70
Total	-\$242,281,076.51	-\$269,759,425.71	\$4,901,348.71	\$27,478,349.20	-\$274,660,774.42
NET TOTAL ASSETS	\$933,800,145.83	\$1,071,251,954.92	\$1,230,574,349.74	-\$137,451,809.09	-\$159,322,394.82

(Source: GOVERNMENT OF KIRIBATI Annual Accounts: 2016-2017)

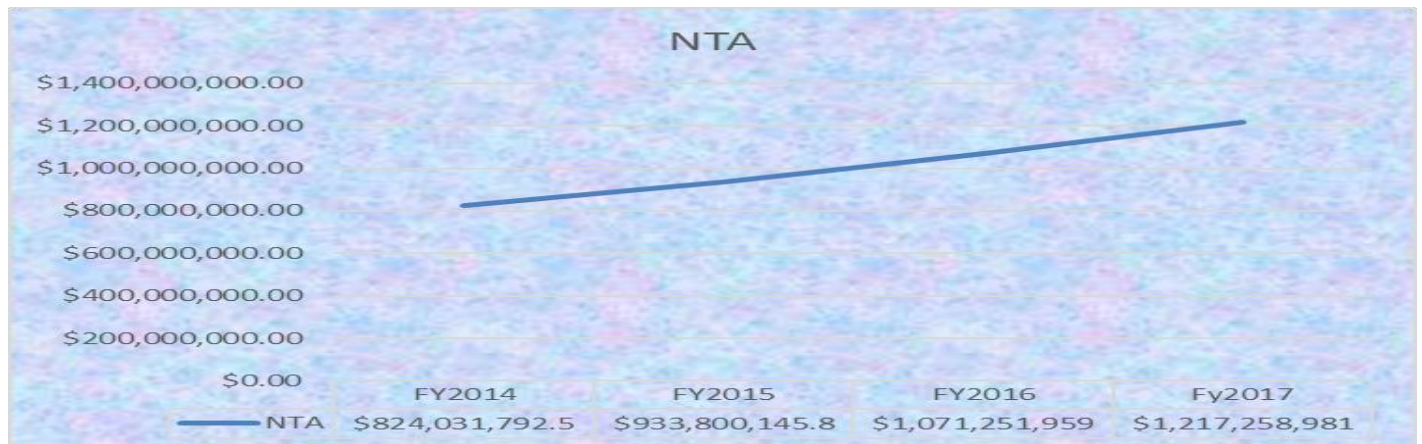
1.2 GOVERNMENT OF KIRIBATI Net Total Assets (NTA)

The analysis (table/graph) below reveals the balances of funds which represent the Realised Net Total Assets for the GOVERNMENT OF KIRIBATI as at December 31st 2017.

Table 1.1 B: GOVERNMENT OF KIRIBATI Net Total Assets.

Description	FY2014	FY2015	FY2016	Fy2017	(Inc)/Dec 2016	(Inc)/Dec 2017
Consolidated Fund	\$107,445,128.42	\$52,529,141.11	\$87,417,196.67	\$91,728,959.88	-\$34,888,055.56	-\$4,311,763.21
Development Fund	\$21,238,265.20	\$25,931,831.54	\$39,047,878.43	\$72,750,930.00	-\$13,116,046.89	-\$33,703,051.57
RERF	\$689,964,296.93	\$837,109,589.96	\$925,965,507.78	\$942,466,355.32	-\$88,855,917.82	-\$16,500,847.54
Special Funds(Land Equity & Stabex & Other Funds)	\$5,384,101.98	\$18,229,583.23	\$18,821,376.39	\$110,312,736.50	-\$591,793.16	-\$91,491,360.11
Total	\$824,031,792.53	\$933,800,145.84	\$1,071,251,959.27	\$1,217,258,981.70	-\$137,451,813.43	-\$146,007,022.43

Figure 1 A: Comparative Graph for year's ended 2014 – 2017 NTA.



It is pleasing to note from the above analysis that the net worth of Government continuously increases over the past four years (2014-2017) indicating that the government had moved toward good sound position. As can be observed above, the total net worth in 2017 had reached \$1.21m an increase in the value of \$146m that was recognized in the fiscal year compared to the increase noted in 2016 of \$137m.

2) STATEMENT 2: GOVERNMENT RECURRENT (CONSOLIDATED FUND) NET BALANCE – FY 2017**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 31/12/2017**Table 2.1 A: Balance of Consolidated Fund for year 2015 – 2017.**

Description (Title)	2015	2016	2017	2016(Inc)/Dec	2017(Inc)/Dec
Balance brought forward	\$107,445,128.42	\$52,529,141.11	\$87,417,196.67	54,915,987.31	-\$34,888,055.56
Add:					
Total Revenue collected	\$253,315,089.80	\$209,258,754.56	\$238,746,206.02	44,056,335.24	-\$29,487,451.46
Sub total	\$360,760,218.22	\$261,787,895.67	\$326,163,402.69	98,972,322.55	-\$64,375,507.02
Less:					
Total Expenditure incurred	-\$308,231,077.11	-\$174,370,699.00	-\$214,218,320.30	-\$133,860,378.11	\$39,847,621.30
Consolidated balance at end of year	\$ 52,529,141.11	\$ 87,417,196.67	\$ 111,945,082.39	\$ (34,888,055.56)	\$ (24,527,885.72)

(Source: GOVERNMENT OF KIRIBATI Annual Account 2016 & 2017)

Based on the analysis above, the audit notes the closing balance of the consolidated fund for this financial year 2017 of **\$111m** was down by **\$24m or 22%** a decline of \$10m compared to increase in the fund reported in 2016 of **\$34m**. However, the decreased noted of **\$24m** was predominantly caused by the increase in the Government expenditure level from \$174m (2016) to \$214m (2017) which has resulted in the increase in value of **\$39m**.

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

3.1) Statement II: Major Recurrent Revenue 2017

Findings and Analysis:

3.1.1 Estimate Budget Revenue against Actual Revenue for year ending 2016-2017

Table 3.1A: Comparative Table Estimate against Actual (2016-2017)

	2016		2017		2016 Variance	2017 Variance
	Estimate	Actual	Estimate	Actual	Act. vs Est.	Act. Vs Est.
Revenue						
Title						
Fishing License Revenue	\$100,000,000.00	\$143,295,455.00	\$110,000,000.00	\$169,148,022.00	-\$43,295,455.00	-\$59,148,022.00
Import duty						
Personal Income Tax	\$7,000,000.00	\$7,900,307.00	\$7,000,000.00	\$7,822,169.91	-\$900,307.00	-\$822,169.91
Company taxation	\$7,600,000.00	\$7,842,516.00	\$9,000,000.00	\$10,172,867.96	-\$242,516.00	-\$1,172,867.96
Dividends	\$1,280,000.00	\$1,357,756.00	\$1,900,000.00	\$1,260,558.29	-\$77,756.00	\$639,441.71
Hotel Tax						
Excise Tax	\$6,100,000.00	\$7,366,933.00	\$7,000,000.00	\$7,877,747.23	-\$1,266,933.00	-\$877,747.23
VAT	\$12,200,000.00	\$15,258,746.00	\$13,300,000.00	\$17,122,318.76	-\$3,058,746.00	-\$3,822,318.76
Nasda(Jaxa Air Service)	\$1,058,244.00	\$1,010,595.00	\$1,058,244.00	\$1,023,843.53	\$47,649.00	\$34,400.47
Nasda(Downrange)	\$646,877.00	\$679,210.00	\$679,225.00	\$692,901.00	-\$32,333.00	-\$13,676.00
Open ship registration fee	\$725,000.00	\$489,327.00	\$400,000.00	\$345,470.00	\$235,673.00	\$54,530.00
Interest on Consolidated fund		\$136,643.00				
Fishing transhipment fees	\$1,407,000.00	\$15,551,533.00	\$3,000,000.00	\$5,314,710.32	-\$14,144,533.00	-\$2,314,710.32
RERF						
Subtotal	\$138,017,121.00	\$200,889,021.00	\$153,337,469.00	\$220,780,609.00	-\$62,871,900.00	-\$67,443,140.00
Ministry Revenue(Including Budget Support	\$2,448,210.00	\$8,369,733.00	\$11,163,100.00	\$17,965,596.18	-\$5,921,523.00	-\$6,802,496.18
Total	\$140,465,331.00	\$209,258,754.00	\$164,500,569.00	\$238,746,205.18	-\$68,793,423.00	-\$74,245,636.18

(Source: 2016 & 2017 Annual Account, MFED)

Breakdown Ministries revenue collection		
Ministries	Revised Budget	Actual collection
Judiciary	\$90,000.00	\$401,159.41
Kiribati Police Service	\$67,000.00	\$130,318.01
Ministry of Foreign Affairs	\$87,000.00	\$201,137.17
Ministry of Internal Affairs	\$8,500.00	\$463.40
Ministry of Environment, Lands & Agriculture development	\$191,300.00	\$188,037.74
Maneaba ni Maungatabu	\$9,350.00	\$6,329.05
Ministry of Commerce & Industry and Cooperative	\$69,634.00	\$78,425.03
Kiribati Audit Office	\$50,000.00	\$80,000.00
Office of the Attorney General	\$750.00	\$562.30
Ministry of Fisheries Marine Resources & development	\$152,000.00	\$209,060.50
Ministry of Health	\$107,470.00	\$112,747.15
Ministry of Education	\$258,600.00	\$184,119.35
Ministry of Information Communication Tourism & Transport development	\$409,400.00	\$684,516.29
Ministry of Finance	\$8,865,466.00	\$14,462,876.58
Ministry of Women Youth & Social Affairs	\$21,890.00	\$26,424.86
Ministry of Infrastructure Sustainable Energy	\$27,790.00	\$39,877.78
Ministry of Employment and Human resources development	\$107,700.00	\$241,092.66
Ministry of Lines and Phoenix Island development	\$514,250.00	\$589,300.46
Ministry of Justice	\$125,000.00	\$329,148.44
Total	\$11,163,100.00	\$17,965,596.18

In referring to the above table, it is pleasing to note that the actual revenue collected in 2017 of **\$238m** was way above the amount that was collected in 2016 of **\$209m** thus incurring an additional/extra actual revenue collection by over **\$29m (Budget vs Actual)**. However, the major source of income that generate and lifts the whole of government revenue is fishing license. As reflected in 2017 annual account, the fishing license earned **\$169m** and when compared with previous year of **\$143m (2016)** the amount fluctuates (up and down) over the years. This simply indicates that the government could not be dependent on fishing license as a major source of income due to forecast that might impact in the shortfall of revenue collection. Therefore, it is of paramount of importance that the government must consider aspect of maintaining prudent fiscal policy to cover up such shortfall or come up with effective strategy that will maintained the level of income in the future years.

Further, there were two major revenue outputs that report a fall short of their approved revenue budget namely NASDA (Jax Air service) and Open ship registration license with their deficits of **\$34k** and **\$54k** respectively. Therefore, the ministry concerned shall ensure to give more realistic budget estimates so as to meet revenue targets at year end.

3.1.2 Shortfall of Revenues by Ministries for 2017

Findings and Analysis:

Table 3.1B: Value of Revenue shortfalls by Ministries for 2017

Ministry Name	Revenue Revised Budget	Actual Revenue	Variance (Over)/Under
Ministry of Internal Affairs	\$8,500.00	\$463.40	\$8,036.60
Ministry of Environment Lands & Agricultural Divisions	\$191,300.00	\$188,037.74	\$3,262.26
Maneaba ni Maungatabu	\$9,350.00	\$6,329.05	\$3,020.95
Office of the Attorney General	\$750.00	\$562.30	\$187.70
Ministry of Education	\$258,600.00	\$184,119.35	\$74,480.65
TOTAL	\$468,500.00	\$379,511.84	\$88,988.16

As alluded in the table above, a major improvement in the number of Ministries that are failed to meet their revenue target in 2017. As noted, five (5) Ministries out of the (22) failed to meet revenue estimate compared to eight (8) Ministries failed to meet revenue collection in 2016. Though, when totalling up those five (5) Ministries deficit it add up to **\$88k** amount of which fall below the deficit reported in 2016 of **\$261k**. It appeared that the failure by management in exerting efforts so to meet their revenue targets as anticipated. The revenue deficits reported above could have a significant effect on the RERF had there not been excessive collections achieved in this financial year, 2017.

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

Management Response:

3.2) STATEMENT II: EXPENDITURE**Findings and Analysis:****3.2.1 Summary expenditure table by Ministries for years ended 2015 up to 2017.**

As stipulated under Section 40 (1) (IV) of Cap 79, the Accountant General shall provide and submit a comparative statement of actual an estimated expenditure by subheads for each fiscal year end. Demonstrated below is the Government Expenditure against Budget incurred throughout the years of 2015 up to 2017.

Table 3.2A: Summary of expenditure by Ministries for year 2015 up to 2017

Expenditure		FY2015		FY2016		FY2017		2016 Variance	2017 Variance	Management report figure	Distort amount
Code	Title	Estimate	Actual Exp	Estimate	Actual Exp	Estimate	Actual Exp	Under/(Over)	Under/(Over)		
E02	LCDF	\$23,150,425.00	\$23,150,424.00	\$36,333,050.00	\$36,333,050.00	\$61,105,430.00	\$61,105,430.00	\$0.00	\$0.00		
E36	OPL	\$326,502.00	\$403,843.00	\$458,035.00	\$443,184.89			\$14,850.11			
E09	OB	\$1,708,761.00	\$1,797,285.00	\$1,989,429.00	\$1,972,140.48	\$1,995,288.00	\$1,911,007.06	\$17,288.52	\$84,280.94	\$84,280.94	\$0.00
E10	PSO	\$602,290.00	\$637,668.00	\$727,667.00	\$724,453.08	\$866,603.00	\$811,028.16	\$3,213.92	\$55,574.84	\$55,574.84	\$0.00
E11	JUDICIARY	\$1,650,030.00	\$1,654,347.00	\$1,766,033.00	\$1,833,691.68	\$1,828,674.00	\$1,823,088.87	-\$67,658.68	\$5,585.13	\$5,585.13	\$0.00
E12	KPS	\$7,262,784.00	\$7,329,687.00	\$7,736,542.00	\$7,890,271.15	\$7,629,215.00	\$7,324,071.29	-\$153,729.15	\$305,143.71	\$305,143.71	\$0.00
E13	PSC	\$241,818.00	\$256,698.00	\$249,123.00	\$242,925.25	\$275,984.00	\$283,555.66	\$6,197.75	-\$7,571.66	-\$7,571.66	\$0.00
E14	MFAI	\$2,178,571.00	\$2,745,375.00	\$2,301,878.00	\$2,332,288.28	\$2,644,176.00	\$2,192,935.97	-\$30,410.28	\$451,240.03	\$451,240.03	\$0.00
E15	MIA	\$2,229,210.00	\$2,208,340.00	\$2,422,135.00	\$2,407,475.59	\$2,542,869.00	\$2,532,100.55	\$14,659.41	\$10,768.45	\$10,768.45	\$0.00
E16	MELAD	\$2,999,994.00	\$2,999,705.00	\$3,243,609.00	\$3,259,538.29	\$3,365,796.00	\$3,358,668.52	-\$15,929.29	\$7,127.48	8387.48	-\$1,260.00
E17	MM	\$3,066,410.00	\$2,809,029.00	\$3,419,042.00	\$3,340,484.96	\$3,259,356.00	\$3,355,933.16	\$78,557.04	-\$96,577.16	-96577.16	\$0.00
E18	MCIC	\$1,480,721.00	\$1,379,473.00	\$1,659,281.00	\$1,563,965.66	\$1,819,777.00	\$1,752,350.57	\$95,315.34	\$67,426.43	70426.43	-\$3,000.00
E19	KAO	\$695,236.00	\$661,987.00	\$753,883.00	\$737,595.75	\$758,103.00	\$691,226.00	\$16,287.25	\$66,877.00	\$66,877.00	\$0.00
E20	OAG	\$689,188.00	\$708,142.00	\$745,243.00	\$740,876.41	\$626,816.00	\$566,936.85	\$4,366.59	\$59,879.15	\$64,129.15	-\$4,250.00
E21	MFMRD	\$2,279,744.00	\$2,020,278.00	\$2,684,603.00	\$2,365,325.40	\$3,055,280.00	\$2,840,837.72	\$319,277.60	\$214,442.28	\$214,442.28	\$0.00
E22	MOH	\$15,522,764.00	\$17,792,976.00	\$21,477,205.00	\$22,047,213.91	\$20,035,871.00	\$19,090,868.82	-\$570,008.91	\$945,002.18	\$965,082.18	-\$20,080.00
E23	MOE	\$20,152,235.00	\$19,834,251.00	\$22,307,956.00	\$21,770,085.61	\$22,948,458.00	\$22,208,383.31	\$537,870.39	\$740,074.69	\$740,262.69	-\$188.00
E24	MICTTD	\$2,677,655.00	\$2,666,059.00	\$3,149,294.00	\$3,154,452.31	\$4,581,193.00	\$4,566,262.54	-\$5,158.31	\$14,930.46	\$16,923.46	-\$1,993.00
E25	MFED	\$6,438,994.00	\$5,864,200.00	\$3,199,805.00	\$3,261,516.43	\$2,715,046.00	\$2,702,767.55	-\$61,711.43	\$12,278.45	\$13,778.45	-\$1,500.00
E26	MWYSA	\$1,524,060.00	\$1,531,335.00	\$1,709,198.00	\$1,676,533.54	\$1,516,074.00	\$1,515,671.95	\$32,664.46	\$402.05	\$7,592.05	-\$7,190.00
E27	MISE	\$2,386,335.00	\$2,390,739.00	\$2,776,563.00	\$2,779,871.37	\$3,097,725.00	\$2,996,114.97	-\$3,308.37	\$101,610.03	\$106,010.03	-\$4,400.00
E28	MEHR	\$3,684,455.00	\$3,684,938.00	\$4,665,254.00	\$4,561,746.06	\$4,865,754.00	\$4,787,450.59	\$103,507.94	\$78,303.41	\$78,303.41	\$0.00
E29	MLPID	\$3,175,031.00	\$2,828,832.00	\$3,480,378.00	\$3,411,734.46	\$3,769,542.00	\$3,699,469.86	\$68,643.54	\$70,072.14	\$75,342.14	-\$5,270.00
E37	MOJ					\$2,606,491.00	\$2,748,291.50		-\$141,800.50	\$134,690.50	-\$7,110.00
	Debt Servicing	\$667,800.00	\$1,248,999.00	\$1,149,693.00	\$1,762,506.44	\$1,544,340.00	\$2,340,918.28	-\$612,813.44	-\$796,578.28	-\$796,578.28	\$0.00
	Other Government Expenses	\$29,417,304.00	\$24,626,469.00	\$46,667,689.00	\$43,757,776.34	\$61,322,037.50	\$57,012,950.52	\$2,909,912.66	\$4,309,086.98	\$4,309,086.98	\$0.00
	Total excluding contribution to RERF	\$136,208,317.00	\$133,231,079.00	\$177,072,588.00	\$174,370,703.34	\$220,775,898.50	\$214,218,320.27	\$2,701,884.66	\$6,557,578.23	\$1,065,136,369.00	-\$36,241.88
	Contribution to RERF		\$175,000,000.00								
		\$136,208,317.00	\$308,231,079.00	\$177,072,588.00	\$174,370,703.34	\$220,775,898.50	\$214,218,320.27	\$2,701,884.66	\$6,557,578.23	\$1,240,136,369.00	

(Source: Extracted from 2016 & 2017 Annual Account)

Management Response:

3.2.2 Comparative table for Government expenditure against actual for years of 2015 - 2017**Table 3.2B: Comparative table for Government Expenditure against actual (2015-2017)**

	2015	2016	2017	2016 Inc/Dec	2017 Inc/Dec
Gov't Expenditure Estimate	\$136,208,317.00	\$177,072,588.00	\$220,775,898.50	-\$40,864,271.00	-\$43,703,310.50
Gov't Actual Expenditure	\$133,231,079.00	\$174,370,703.34	\$214,218,320.27	-\$41,139,624.34	-\$39,847,616.93
Variance (Over)/Under	\$2,977,238.00	\$2,701,884.66	\$6,557,578.23	\$275,353.34	-\$3,855,693.57

3.2.3 Comparative expenditure graph for years ended 2015 up to 2017**Figure 3.2A: Comparative expenditure graph for years ended 2015 up to 2017**

As clearly depicted in the above table and graph the expenditure level over the three years constantly increased to meet the increase in level of spending. It is pleasing to note with such increases there was net savings throughout the years. In 2017, the net saving was in the vicinity \$6,557,578.23 which does not agree with saving as per annual account 2017 of \$6,553,583.23 incurring a variance of \$3,995 which require management to justify.

3.2.4 Un-authorised spending by Ministries for year 2017**Table 3.2C: Overspending by Ministries as reported in 2017 account.**

OVERSPENT BY MINISTRIES 2017				
Ministry Name	Original Budget	Revised Budget	Actual Expenditure	Variance(Over)/ Under
Pubic Service Commission	\$ 260,984.00	\$ 275,984.00	\$ 283,555.66	-\$7,571.66
Maneaba ni Maungatabu	\$ 3,259,356.00	\$ 3,259,356.00	\$ 3,355,933.16	-\$96,577.16
Ministry of Justice	\$ 2,579,491.00	\$ 2,606,491.00	\$ 2,748,291.50	-\$141,800.50
TOTAL	\$ 6,099,831.00	6,141,831.00	6,387,780.32	-\$245,949.32

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

(Source: Annual Account 2016)

It is pleasing to note that the level of unauthorized spending for 2017 had gradually decline to **(\$245k)** when comparing with last year (2016) unauthorized spending of **(\$1.52m)** a significant drop pf \$1.274m **(2016 \$1,520,727.86 less 2017 \$245,949.32)**. This gives an indication that most of Ministries except for the three (3) had shown better performance in operating and control within approved budget which contribute to overall saving of the government funds. As had been reiterated in my previous reports the proper avenue in approving such aftermath is clearly stipulated under the Constitution, Section 109 (5) which states that;

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

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

Management response:

3.2.5 Summary of Debt Servicing for year ended 2014 - 2017**Table 3.2D: Summary of Debt Servicing Actual Expenditure for year ended 2014 – 2017**

Title	2014	2015	2016	2017	2016 (Inc)/Dec	2017 (Inc)/Dec
EIB loan	\$149,285.07		-	-		
ADB loan 281	\$14,947.08	\$40,219.15	\$34,052.99		\$6,166.16	
ADB loan 724	\$39,431.03	\$41,123.90	\$41,348.59		-\$224.69	
ADB loan 786	\$43,148.61	\$46,011.03	\$135,161.18	\$22,877.16	-\$89,150.15	\$112,284.02
ADB loan 922	\$58,576.07	\$62,956.32	\$30,418.61		\$32,537.71	
ADB loan 1039	\$49,515.75	\$36,059.29	\$33,826.30	\$27,076.02	\$2,232.99	\$6,750.28
SAPHE Projects 1648	\$382,886.69	\$418,131.27	\$421,985.54	\$205,154.68	-\$3,854.27	\$216,830.86
ADB loan 2718	-	\$8,403.08	\$59,459.25		-\$51,056.17	
Other Financing	\$9,349,471.80	\$596,094.70	\$1,006,253.98	\$2,085,810.42	-\$410,159.28	-\$1,079,556.44
Total	\$10,087,262.10	\$1,248,998.74	\$1,762,506.44	\$2,340,918.28	-\$513,507.70	-\$578,411.84

Note(Other Financing)	
Road rehabilitation	\$204,675.05
Bank Bank Charges	\$1,017,442.45
Civil Suites	\$707,109.42
Loan Agreement	\$156,583.50
	\$2,085,810.42

The level of expenditure for Debt Servicing in 2017 had continuously escalate by over \$578k prevail the increase noted in 2016 of \$513k. The increase was contributing to the increase in other financing of \$2.08m which in turn thus lead to intensify the overall total for Debt Servicing to \$2.3m. Further, most of the above loans were been initiated more than decade ago except for ADB loan 2718 of road rehabilitation project that was just instigated few years back. Hence, the audit would be pleased if management provides reasonable justifications as to why these prolonged loans were still standing as loans in the Public Accounts though such have been instigated more than a decade ago.

Management response:

3.2.6 Debt servicing actual expenditure against estimate for year 2017**Table 3.2E: Actual expenditure against estimate for Debt Servicing - 2017**

Title	Revised Budget	Actual	Variance(Over) /Under
EIB loan			\$0.00
ADB loan 281			\$0.00
ADB loan 724	\$39,208.00		\$39,208.00
ADB loan 786	\$2,685,829.00	\$2,398,783.92	\$287,045.08
ADB loan 922	\$59,580.00		\$59,580.00
ADB loan 1039	\$49,996.00	\$27,076.02	\$22,919.98
SAPHE Projects 1648	\$392,340.00	\$205,154.68	\$187,185.32
Other Financing	\$960,371.00	\$2,085,890.42	-\$1,125,519.42
Total	\$4,187,324.00	\$4,716,905.04	-\$529,581.04

As noted in the table above, slight decrease in the amount overspend incurred in 2017 of \$529k compared to colossal spending reported in 2016 of \$612k. The bulk of the overspending reported in 2017 of over \$529k was mainly caused by the following accounts:

- i) Other Financing with the amount of **\$1.125m**

Breakdown on Other Financing			
Title	Revised Budget	Actual	Variance(Over) /Under
Road Rehabilitation	\$132,575.00	\$204,675.05	-\$72,100.05
ADB Loan No.2795	\$34,376.00		\$34,376.00
Bank Charges	\$350,000.00	\$1,017,522.45	-\$667,522.45
Civil Suites		\$707,109.42	-\$707,109.42
Loan agreement	\$303,420.00	\$156,583.50	\$146,836.50
Contingency	\$140,000.00		\$140,000.00
Total	\$960,371.00	\$2,085,890.42	-\$1,125,519.42

1. It was further noted that two account namely ADB loan 2795 and Contingency the estimate of which was never been utilised and the value involved was \$34k and \$140k respectively. Therefore, an explanation was required on the overspent including the non-utilised of budget for ADB loan account 2795 accordingly.
2. Moreover, audit note that there is no approved provision for Civil suites but in fact the amount involved in the actual payment was \$707k and therefore the audit sought further expression on this payment.

Management response:**3.2.7 Other Financing¹ accounts: 2017 \$2,085,890.42 ,2016(\$1,006,253.98)**

From the overall analysis on other financing, the audit observed during the investigation that the balance for other financing had significantly rise up from **\$1.01m (2016) to \$2.08m (2017)** an increase of \$1.07m recognized for 2017. This simply indicates that the value of other financing was further increased by 51% compared to 40% experienced 2016. This assures that the major contributor to

the overspent for Debt Servicing derived from other financing and ADB Loan 786 with amount of \$2.08m and \$2.39m respectively. Hence management responses are also requested herewith concerning the above incident noted.

Management response:

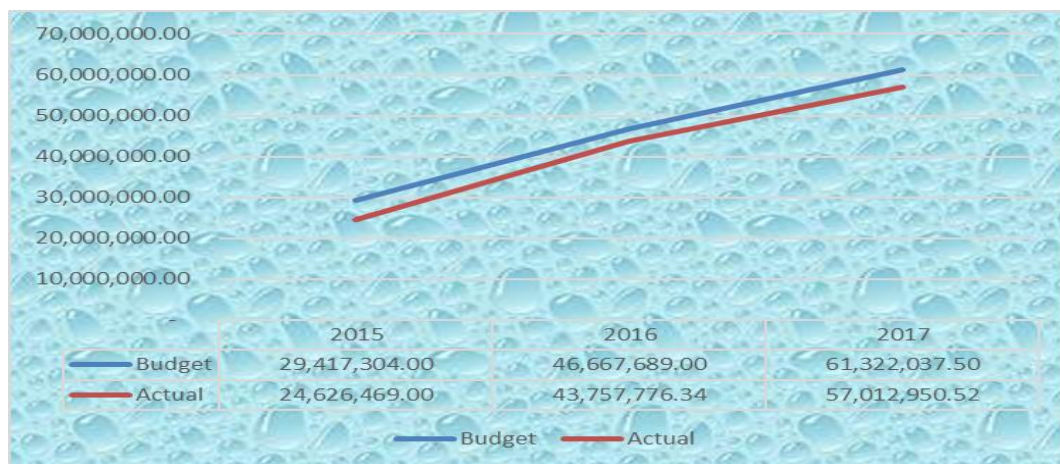
3.2.8 Summary of Other Government Expenditure for year ended 2015- 2017

Table 3.2F: Summary table of other Government spending (2015-2017)

Year	2015	2016	2017	2016(Inc)/Dec	2017(Inc)/Dec
Budget	29,417,304.00	46,667,689.00	61,322,037.50	(17,250,385.00)	(14,654,348.50)
Actual	24,626,469.00	43,757,776.34	57,012,950.52	(19,131,307.34)	(13,255,174.18)
Variance(Over)/Under	4,790,835.00	2,909,912.66	4,309,086.98	1,880,922.34	-\$1,399,174.32

3.2.9 Comparative graph of Other Government Expenditure against Budget (2015-2017)

Figure 3.2B: Comparative line graph of actual expenditure against budget (2015 – 2017)



As noted from the above table and graph, it is obvious that the revised budget for other Government expenditure had total up and reached the amount of \$61.3m for the fiscal year 2017 compared with its approve original budget of \$53.1m thus configure a variance of \$8.2m. Therefore, this gives an assurance that the variance detected of \$8.2m presumes to be an approved supplementary of other Government expenditure for 2017.

However, as indicated above the actual expenditure of **\$57m** was still below the revised budget of **\$61.3m** which has resulted in reporting the net savings significantly of over **\$4.3m**. The audit is of the belief that the supplementary made in 2017 of **\$8.1m** was deemed too excessive as could be evidenced by reporting the net saving of over **\$4.3m** at year end. Therefore, explanations from management should be provided as to why these supplementary were not been fully utilised as intended for when preparing the supplementary for above outputs in the first place.

Management response:

3.2.10 Variances detected KPF contribution in the annual accounts and Management report (G.I)

The audit had managed to detect the discrepancies in the value of the total KPF contribution in the 2017 annual account of \$3,044,630.91 against the Management report (2017) total figure of \$3,042,308.65 after extracting the total (KPF Contribution) for each Ministries under Management report (2017) as a result the variance of \$2,332.26 was overstated in the 2017 annual account. As we recall from the 2016 Government audited annual account, this is a similar issue brought up in the previous audit and considered as the same issue this year (2018) for auditing 2017 annual account then it assures that management had fail implement audit recommendation.

Recommendation:

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

Management response:**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 2017.

GL Code	Title	FY 2015	FY 2016	FY 2017
Special Funds				
F0070000067A	Dai Nippon Causeway Fund	-\$2,292,113.82	-\$2,105,897.63	-\$2,240,258.82
F0070000061A	Import Levy Fund	-\$5,094,574.22	-\$6,126,682.62	-\$6,875,758.00
F0070000070A	Plant Vehicle Unit(PVU)	-\$504,490.72	-\$199,974.40	-\$86,403.83
F0070000069A	Civil Aviation Special Fund	-\$350,689.89	-\$902,541.01	-\$1,278,546.38
F0070000030A	Kaoki Mange Special Fund	-\$317,413.65	-\$329,305.35	-\$364,890.55
	Sub Total	-\$8,559,282.30	-\$9,664,401.01	-\$10,845,857.58
Other Funds				
F0070000053A	Retained Income B/Fwd	-\$21,238,265.20	-\$25,931,831.54	-\$39,047,878.43
F0070000060A	RERF	-\$837,109,589.96	-\$925,965,507.78	-\$942,466,355.32
F0070000062A	Stabex Special Fund	-\$59,351.55	-\$59,351.55	
F0070000063A	No.6 Stabex Fund	-\$439,968.06	-\$439,968.06	-\$488,898.80
F0070000064A	Local Stabex Fund	\$1,897,740.71	\$1,495,755.44	\$1,495,755.44
F0070000066A	Leper trust Board	-\$8,961.27	-\$8,961.27	
F0096003998A	Recurrent Dev Clearing A/C	-	\$918,660.32	
F0070000068A	Esrow Fund	-\$66,536.76	-\$66,536.76	
F0070000071A	Land Equity	-\$10,993,224.00	-\$10,993,224.50	-\$10,993,224.50
F0070000072A	Highway Authority		-\$3,349.00	-\$148,085.18
F008000001A	Consolidated Fund	-\$107,445,128.42	-\$52,529,141.10	-\$57,398,375.96
F007000005A	SSGA Cash trust			-\$89,332,427.15
	Sub Total	-\$975,463,284.51	-\$1,013,583,455.80	-\$1,138,379,489.90
	Grand Total	-\$984,022,566.81	-\$1,023,247,856.81	-\$1,149,225,347.48

(Source: Annual account 2017 page 22)

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

- a) The total balance for the Special Fund as at 31/12/17 had significantly increased by **\$125m** outweighing an increase of \$39m reported in fiscal year 2016. As noted, the increases noted of over **\$125m** were primarily caused by the inclusion of the newly accounts of i) SSGA CASH TRUST (\$89m) as well as the increase in the value of the following funds namely ii) Retained Income B/F (\$39m) iii) RERF (\$942m) and lastly High way authority (\$148,085.18).
- b) As recall from previous audit (2016 annual account) reflected above and remained as an issue, there is one debit figure appearing under **Local Stabex fund (F007-64A)** in the sum of **\$1.49m**. As noted that the debit figures appearing amongst the investments balances indicates the overdraft of such investment therefore clarifications from concerned management are also invited herewith. Any charges attached there to should be provided.

Management response:

3.4) STATEMENT VI: CASH AT BANK AND ON HAND AS AT 31/12/2017**Findings and Analysis:****3.4.1 Cash at Bank and On Hand Balance for years ending 2015 up to 2017**

Provided below is the summary of the cash at bank and on hand balances for the last three consecutive years 2015 up to 2017 as follows:

Table 3.4A: Cash at bank & on hand for year 2015 – 2017

Accounts	GL Code	FY2015	FY2016	FY2017	2016 (Inc)/Dec	2017 (Inc)/Dec
No 1 Account(Operating Account)	M003000001A	\$20,414,618.00	\$58,052,171.00	\$58,899,594.34	-\$37,637,553.00	-\$847,423.34
No 4 Account(Project)	M003000004A	\$25,232,901.00	\$42,926,575.00	\$66,761,564.30	-\$17,693,674.00	-\$23,834,989.30
No 5 Account(Kiritimati)	M003000005A	\$2,460,426.00	\$2,026,802.00	-\$228,167.54	\$433,624.00	\$2,254,969.54
No 6 Account(Stabex)	M003000006A	\$127,918.00	\$6,816.00	\$6,696.00	\$121,102.00	\$120.00
Petty Cash	M003000007A					
IBDs with BOK Ltd	M003000008A	\$16,540,000.00	\$7,540,000.00	\$12,943,760.06	\$9,000,000.00	-\$5,403,760.06
KPF Clearing Account	M0030000010A	-\$336,725.00	-\$332,030.00		-\$4,695.00	-\$332,030.00
Sundry Creditor Clearing Acc	M0030000013A	-\$8,425.00	-\$8,425.00	-\$8,424.75	\$0.00	-\$0.25
Kiribati High Com Bank Acc	M0030000017A	\$1,724,742.00	\$2,054,608.00	\$44,017.87	-\$329,866.00	\$2,010,590.13
Taipei Mission Bank Acc	M0030000018A	\$16,996.00	\$29,598.00	-\$115,017.30	-\$12,602.00	\$144,615.30
New York Mission Bank Acc	M0030000019A	-\$87,075.00	-\$48,711.00	-\$46,496.97	-\$38,364.00	-\$2,214.03
Taipei Mission Petty Cash	M0030000020A	\$817.00	\$817.00	\$595.24	\$0.00	\$221.76
Kiribati high Com Petty Cash	M0030000022A	\$6,382.00	\$11,205.00	\$51,053.77	-\$4,823.00	-\$39,848.77
EPOS-Outter Island	M0030000023A	\$30,000.00	\$30,470.00	\$425,036.38	-\$470.00	-\$394,566.38
SSGA CASH TRUST	M0030000024A			\$89,332,427.15	\$0.00	-\$89,332,427.15
Sub total		\$66,122,575.00	\$112,289,896.00	\$228,066,638.55	-\$46,167,321.00	-\$115,776,742.55
Cash with Agents	M0034's	\$36,971.00	\$36,970.56		\$0.44	\$36,970.56
Cash with Sub accountants	M0031's	\$4,250.00	\$4,250.00	\$3,937.85	\$0.00	\$312.15
Cash in transit(RBC)	M0033's		2,572,978	\$5,495,817.94	-\$2,572,978.00	-\$2,922,839.94
Outer Island State Fund Cash	M0032's	153490	\$170,443.00	\$214,993.38	-\$16,953.00	-\$44,550.38
Sub total		\$194,711.00	\$2,784,641.56	5714749.17	-\$2,589,930.56	-\$2,930,107.61
Grand Total		\$66,317,286.00	\$115,074,537.56	\$233,781,387.72	-\$48,757,251.56	-\$118,706,850.16

(Source: Annual Account 2017)

The above table depict the cash position for the Whole of Government. As evidently shown above the cash at bank & on hand balances had significantly escalate over the past three (3) years (2015-2017) with the total sum for each years as follows; **2015 \$66m, 2016 \$115m and 2017 \$233m**. In 2017, cash at bank & on hand value had dramatically increase by **\$118m** amount prevail over increase value realized in 2016 of \$48.7m. The reason for such increase in the value for cash at bank & on hand was mainly due to the inclusion of the SSGA CASH TRUST \$89,332,427.15 in addition with the increase in the value for the Government NO.4 and EPOS-Outter Island by \$23m and \$394k respectively. It was further noted that some irregularities were also been discovered when performing this year audit and these are provided and itemised in further details as follows:

3.4.2 Government No. 1 Bank Account Status

- The balance of the Government No.1 bank account 2017 as indicated above was **\$58,899,594.34** a steady drop of **\$847k** was realized when compared to an increase in the value of **\$37.6m** incurred in 2016.

3.4.2.1 Variance of \$722 between Bank reconciliation against Bank Statement balance as at 31/12/17

The audit has noted a variance of **\$722** detected when confirming the balance as per bank statement carry forward to the Bank reconciliation as a bank balance. As stated in the table below, the closing bank balance as per bank statement was \$60,551,150.33 as at 31/12/2017 which was supposed to be tallied with bank balance in the Bank reconciliation statement. As agreed during the exit meeting 34/12/2018, the audit and MFED had agreed that the variance noted will be remained until the matter will resolved between the bank and MFED.

Bank Reconciliation vs Bank Statement 31/12/17	Amount
Bank Reconciliation(Bank Balance)	\$60,551,872.33
Bank Statement as at 31/12/17	\$60,551,150.33
Variance	\$722.00

Management response:**3.4.2.2 Deposits not appeared in the Statement for 2017**

The total accumulative balance of the government deposits that did not appear in the bank statement as indicated in the bank reconciliation statement had now reached a significant amount of **\$2,345,356.25**. As could be witnessed when compared with the value of outstanding deposits reported in 2016 amounting to **\$2,845,574.40**, a gradual drop of below **\$500k** compared to increase value of over **\$1.2m** realized in 2016 indicating a much improve in the value of deposited not credited but this will be considered as material value. Yet, as earlier mentioned in my audit reports that this was one of the audit major concern because of the reasons stated below:

- 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.
- 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.
- The revenue output codes in the annual account had been overstated by these un-deposited revenues and so was the annual accounts but did not increase the cash at the bank the result of which understated the cash at the bank and the net worth of the Government.
- There was revenue foregone in the form of interest that would have been earned on those un-deposited revenues.
- The above have all affected the cash flow of government throughout the year and also prevented Government of Kiribati from receiving additional revenue in the form of interest.

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

Management response:

3.4.2.3 Value of un-presented cheques: 2017 \$3,997,634.24 (2016 \$5,324,765.38)

The total value for un-presented Cheques reported in the Bank Reconciliation Report 2017 value at \$3,997,634.24 an amount of which fall below un-presented cheques reported 2016 of \$5,325,667.22 a drop of \$1.33m realized 2017. From the audit perspective the above un-presented cheques would have an effect especially on the Government cash flow as these payments were still pending as at the year-end (2017) thus resulted affecting the cash a bank if payment paid in the next fiscal year (2018).

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

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

Management response:

3.4.3 Government No. 4 Bank Account

The balance of the No.4 bank account had kept increasing over the financial years significantly from **\$25.23m** (2015), **\$42.92m** (2016) and **\$66,.76m (2017)** respectively. However, the audit had managed to identify the anomalies as noted in the finding below:

3.4.3.1 Value of outstanding deposits as at 31/12/17 \$92,368.70 (2016: \$34,080.46)

- The value of the outstanding deposit not yet credited (deposit not on statement) reported in year 2017 was \$92,368.70 so that when compared with last year amount (outstanding deposits) of \$34,080.46, the variance of **\$58,288.24** was noted as the increase in value from year 2016 to 2017 respectively.
- It was also noted that the bulk of these outstanding deposits derived from the current outstanding deposit 2017 fiscal year. However, as we recall from 2016 audited annual account, the audit put more emphasis on the prolonged outstanding deposit which have not yet been settled to date which management had fail in their management response (2016 audited annual account) to resolved before the closing off 2017, therefore management sought to provide further explanations.

Date	Details	Vouchers	Amount
10/11/2010	FD Tanaea 01/10 774642	201002011	\$694.80
10/8/2011	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
	Total		\$30,470.46

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

Management response:

3.4.3.2 Value of un-presented cheques as at 31/12/17 \$1,839,788.65 (2016 \$2,444,602.28)

The total value for the un-presented cheque (withdrawals not on statement) for No.4 Bank account in the Bank reconciliation 2017 was \$1,839,788.65 so when compared with 2016 un-presented cheque of \$2,444,602.28 the audit confirmed that the variance of \$604,813.63 had slightly gone down compared to the increase realized in 2017 of \$895,262.22. As observed, the un-presented cheques reflected above of **\$1.83m** involved various payments to respective payees who had not claimed their payments for over period of time. From the audit perspective the above un-presented cheques would have an effect especially on the Government cash flow as these payments were still pending as at the year-end (2017) thus resulted affecting the cash a bank if payment paid in the next fiscal year (2018).

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

Management response:**3.4.4 Government No. 5 Bank Account****Finding and Analysis:**

- The preparation of the Bank Reconciliation for the Government No. 5 was first initiated in 2018. This is the first time that 2017 Bank Reconciliation report NO.5 for MLIPD was included in the Government 2017 annual account. The actual closing balance of the No.5 Bank Statement as at 31 December 2017 was \$300,557.13 which was not consistent with No. 5 bank balance as per annual account with a negative balance **(\$228,167.54)**, thus raised uncertainty regarding the accuracy of the bank reconciliation prepared by the MFED.
- Further, the audit notes the No.5 PPI Un reconciled balance of \$2,341,042.05 which allocated under the sundry deposits.

Implication:

- An overdraft will have incurred more charges by the bank.
- Government cheques will be rejected by the bank.

Recommendation:

MFED must be considering reviewing and checking the bank reconciliation prepared to ensure the bank balance must be consistent with records.

Management response:

3.4.5 Kiribati High Commission – Bank Reconciliation FY 2017

Finding and Analysis:

- The issue with the completion of the Bank Reconciliation for KHC remain doubt and unresolved despite the fact that management still fail. It observed during the audit that Bank Reconciliation 2017 has not competed as required from January-September except for October to December (November final). This issue had been brought up in the previous government account 2015/2016 and it appears that management had failed to implement the audit recommendation for future improvement. It is therefore that the audit could not confirmed the accuracy of the cash at bank/on hand reflected in the annual account (2017) of \$44,017.87 with incomplete Bank reconciliation report 2017.
- In addition, because of the above reason it would be difficult for the auditor to identified outstanding deposited not yet credited as well as the unrepresented cheques.

2015/2016 Implications:

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

2015/2016 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 Government 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:

3.4.6 Outer island state fund – Code M0032

The audit had performed followed up reviewed on the remaining outstanding issues for 2016 Government audited account and the result of the follow up still appears as unresolved issues for 2017.

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

- Based on the audit selection on the following islands to performed a testing on their closing balances. The audit could not extend further scrutiny due to the unavailability of the cash books by which the audit team could not validate the amount disclosed in the annual account as the correct balance for above selected outer island state fund.
- As recall from management response on the 2016 Government audited account. MFED(Management) had stated that the cashbook still upheld with Linnix (Kiritimati) which raise the audit suspicious of how would MFED confirmed those closing balance if no proper consultation with Linnix.

Year	Month	Name of State Fund
2017	December	Betio PO
2017	December	Bairiki PO
2017	December	Bikenibeu PO
2017	December	Fanning
2017	December	Kanton
2017	December	Orona
2017	December	Onota
2017	December	Abemama
2017	December	Kuria
2017	December	Makin
2017	December	TabNorth

2. Lack of reconciliation

- It remained as an issue from the previous audit (Government 2016 audited account) that no proper reconciliation had been conducted by responsible officials and this was simply evidenced when detecting several variances between the balances reflected in the Cash Book with that disclosed in the General Ledger reports as indicated below:

Allocation	State Fund(Islands)	Cash Book Balances	General Ledger	Variance(Over) /Under
M003200003A	Abaiang (State fund)	\$63,930.45	\$63,859.64	\$70.81
M003200005A	Aranuka (State fund)	\$31,957.20	-\$47,905.94	\$79,863.14
M003200006A	Arorae (State fund)	\$49,963.50	\$49,965.54	-\$2.04
M003200007A	Beru(State fund)	\$32,634.20	\$31,637.74	\$996.46
M003200008A	Butaritari (State fund)	\$15,758.65	\$15,221.43	\$537.22
M003200010A	Maiana (State fund)	\$24,025.00	\$24,124.21	-\$99.21
M003200012A	Marakei(State fund)	\$27,253.50	\$23,406.34	\$3,847.16
M003200013A	Nikunau (State fund)	\$24,001.60	\$23,010.17	\$991.43
M003200014A	Nonouti (State fund)	\$8,590.80	\$8,925.36	-\$334.56
M003200017A	Tab Sth (State-fund)	\$10,284.40	\$10,417.08	-\$132.68
M003200018A	Tamana(State-Fund)	\$21,315.40	\$21,354.21	-\$38.81
M003200019A	Banaba (Stat fund)	\$17,245.95	-\$311,763.14	\$329,009.09
M003200021A	Fanning (State fund)	\$43,899.15	\$135,201.02	-\$91,301.87
M003200023A	Abaokoro (State fund)	\$44,090.55	\$44,160.96	-\$70.41
Total		\$414,950.35	\$91,614.62	\$323,335.73

- Refer to Management response (Government 2016 audited account), Management had emphasized that there is a reconciliation between MFED and concerned Island. This could not have satisfied by the audit unless such variances detected above in the table should be tallied (Cash book vs General ledger)

3. Board of Survey

Still remained as an issue for 2017 annual account. As stipulated under FR 11 chapter 18.1 at the end of each fiscal year the Board of Survey must be carried out to examine bank balances held by the accountant general including, sub accountants, postal officers and any other public officers in possession of cash. However, as discovered there were no sign of reports available or provided in respective of i) Fanning (Tabuaeran), ii) Kanton as well as iii) Washington (Teraina)

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

Management response:

3.4.7 Cash in Transit (RBC) - Code M0033

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

In referring to the annual account 2016 the RBC balance for fiscal year 2016 was totaled to **\$2,572,977.84** yet the audit realized that the balance had been hurdled to a sum of **\$5,495,817.94** in year 2017, an amount of which had signposted the increase in value of over **\$2.92m (\$2,572,977.84 less \$5,495,817.94)** significantly.

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

i. Outstanding RBC by MFED.

- After the audit conduct a testing through the account of the RBC(M003300), the audit found that the following RBC were still outstanding or still not yet received by the Finance as per detailed in the table below.

Date	Reference	Amount
2/10/2017	Marakei state fund(PV#33/09	\$780.00
4/12/2017	Marakei state fund(PV#49/12)	\$620.00
28/04/17	TabSth state fund(PV#28/04)	\$135.00
8/12/2017	Nonouti State fund PV#6/12	\$730.00
24/02/2017	TabNorth State fund-(PV#30/02	\$565.00
5/10/2017	Nonouti State fund(PV#2/10	\$800.00
Total		\$3,630.00

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

- The audit conscious and aware of the missing RBC(Makin) of \$25k from the Government 2016 audited annual account and if management could provide further detail on the current status of the missing RBC.
- As informed the above RBC was being issued out to Makin Island on payment voucher 438/16 dated 22/12/16 valued at \$25k. However, the said RBC of \$25k never reached its destination (Makin Island) due to the returning of the aircraft to Tarawa without landing on Makin for some reasons.
- Later the RBC was noted gone missing when the replacement flight for Makin re-scheduled to 27/12/16 in which all air cargoes including the RBC were loaded onto Y12 (GULD) for Makin flight. Yet, the change in aircraft schedule was realized and instead of the Y12 flying to Makin, the Twin Otter (LIMA) was scheduled for Makin flight whereby all cargoes offloaded from Y12 aircraft and reloaded onto the Twin Otter aircraft.
- Upon arrival of the Twin Otter at Makin Island the AKL Agent confirmed and reported to AKL Bonriki that there was no RBC on the aircraft that landed on Makin the same day. The full detail of this issue was further elaborated in the letter dated 13/01/17 that was sent to the Police for further investigation purpose.
- It was further noted that the corresponding response from the Police (refer Police letter dated 19/09/17) regarding the reported case was actually stated that the investigation on the reported case was almost completed. Nevertheless, the letter also emphasized that so far no solid evidence was detected to justify the right suspect of the missing RBC from the possession of the Air Kiribati.
- It is therefore of paramount importance that the Accountant General for Postal delivery and the Chief Executive of AKL as the carrier should take into consideration this issue seriously so as to come up with better procedures and stringent actions so to deter such malpractice from recurring in future.
- AKL should make good for the cash loss to the Government, being the company having had possession of the cash since when they received from Post Office staff and had changed flights on two occasions to Makin, knowing all the time there was an RBC on board from the first time the flight was to leave.

iii. HQPV332/Dev490/17dated 10/10/2017- \$71,700.00.

- The above payment was the RBC of \$71,700.00 which payable to the Treasurer at Nonouti. After reviewing the State Fund of Nonouti for October, the audit found that the above amount had been receipted on the RR#398255 dated 13/10/17 by the amount of \$71690.00. This has therefore resulted in a shortage of \$10.00 and need further clarification. Secondly the audit found no action made to adjust the records by the MFEP to offset that error

iv. HQPV383/09/DEV:461/17- \$100,260.00

- The above payment was payable to Treasurer at Tab North for the RBC. However, the audit found the above amount had been receipted on the RR#300821 dated 14/09/17 by the amount of \$100,280.00. The variance of \$20.00 (\$100,280-\$100,260) is belief to be the excess of the RBC and should be accounted as a surplus surcharged under advance.

v. Tab Sth StateFund-Dec-PV#21/12 \$220.00

- Audit revealed that the RBC of \$220.00 was the mutes which was payable to AG at the Finance on the PV#21/12. However, during the audit, the audit revealed that the above RBC was found in the Envelope of TabSth State fund for Dec 2017 which should be receipted by the Cashier in the MFEP. This kind of situation was not in line as stated in the FR13.9 that all remittances should be receipted and entered in the RBC's Registered. At the same time the above RBC of 220.00 had been receipted on RR#523174 dated 27/08/18.

vi. Misallocation

- Audit found that the following RBC were not posted under the correct allocation as stated below:

Date	Reference	Amount	Current Allocation	Correct Allocation
6/5/2017	HQPV386/06	64,000.00	M0033000023A	M0033000017A
5/7/2017	HQPV343	49,400.00	M0033000005A	M0033000023A

Management response:

3.5) STATEMENT VII: ADVANCES FROM CONSOLIDATED FUND AS AT 31/12/2017

Findings and Analysis:

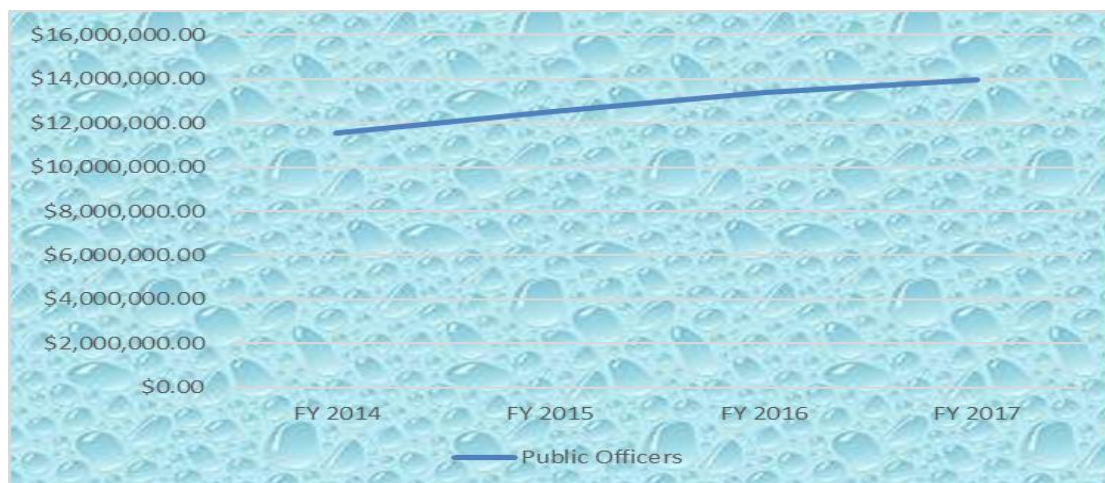
3.5.1 Comparative advances from Consolidated Fund for years 2014 - 2017

Table 3.5A: Summary of Advances from Consolidated Fund

	FY 2014	FY 2015	FY 2016	FY 2017	inc/(dec) 16	inc/(dec) 17
Public Officers	\$11,548,038.45	\$12,504,876.46	\$13,369,006.34	\$13,979,345.70	-\$864,129.88	-\$610,339.36
Sundry Advance	-\$412,492.10	-\$387,182.69	-\$235,175.13	-\$183,889.74	-\$152,007.56	-\$51,285.39
Total	\$11,135,546.35	\$12,117,693.77	\$13,133,831.21	\$13,795,455.96	-\$1,016,137.44	-\$661,624.75

3.5.2 Comparative graph of Advances from Consolidated Fund for years 2014 - 2017

Figure 3.5A: Comparative line graph for advances from Consolidated Fund for years ending 2014 up to 2017.



The table/graph reflected above depicts the level of advances from consolidated fund for the years ending 2014 up to 2017. As noted the level of advances for the last three (3) consecutive years (2014-2016) the trend had kept increasing significantly by \$2.5m in 2014, a slow increase of \$982k noted in 2015, \$1.01m (2016) and then gradually decline in 2017 with an amount of \$661k compared with previous years.

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

3.5.3 Advances (Personal & Salary Advances): (L100A) 2017 \$8,448,969.05 (2016: \$8,091,237.37)

In referring to the annual account 2017 the balance for advance account (L100A) was further increased by **\$357k** experienced 2016-2017 the same amount of which equal the increase noted in financial year 2016 of **\$357k**, (i.e. (2017) \$8,448,969.05 less (2016) \$8,091,237.37). The audit further noted that an Advances (L100A) account was mainly derived from the labeled sub accounts as per indicated in the table shown below:

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

- There were some officers whose names appeared twice as could be sighted in the trial balance 2017 and these are provided in the table below. This issue raised in the 2016 government audited account and it appears there's no improvement in the system.

Items#	Code #	Name	Abstract per Trial balance
2	L100A415089A	Keeke Tekarika	45,104.79
	L100A209097A	Keeke Tekarika	83,240.72
	L100A212140A	Rametu Areti	1,679.16
6	L100A212178A	Rametu Areti	123.30
8	L100A206280A	Wakareta Iotebw a	27,573.70
10	L100A415094A	Wakareta Iotebw a	64,411.47
11	L100A202200A	Tauanei Kaburoro	97,964.05
	L100A202200A	Tauanei Kaburoro	27,791.29
			\$ 347,888.48

- Some officials' names who had already left the government service, as was the case in previous years, still appear in the trial balance.
- The absence or lack of activating proper recovery actions particularly by the concerned Ministry (MIA) is the common failure as could be evidenced by the continuing increases in the balances over the years.
- The audit confirmed that most of the above finding were repeatedly raised in 2017 audited annual which confirmed that management failed to implement to audit recommendation raised in the 2016 Government audited account.

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

Management responses are required on the above anomalies noted.

2015/2016 Implications:

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

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

2015/2016 Recommendations:

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

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

2015/2016 Recommendation:

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

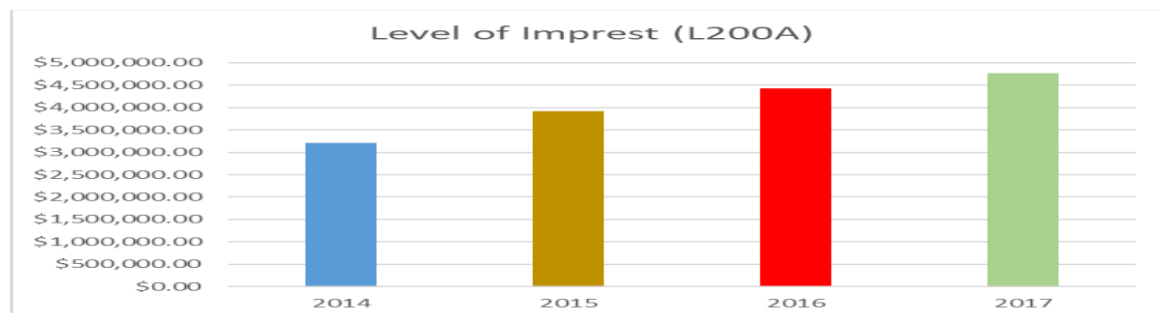
Management response:

3.5.4 Status of Imprest: (L200A)

Table 3.5D: Accumulative balances of Outstanding Imprest (2014– 2017)

Description	2014	2015	2016	2017	(Inc)/Dec 2016	(Inc)/Dec 2017
Level of Imprest (L200A)	\$3,210,169.72	\$3,925,024.90	\$4,428,144.52	\$4,759,769.14	-\$503,119.62	-\$331,624.62

Figure 3.5A: Outstanding Imprest comparative graph (2014 -2017)



As clearly reflected above (table/graph) the value of outstanding Imprest (L200) in fiscal year 2017 had escalate by the amount of **\$4.752m** an amount of which when compared with last year (2016) balance of **\$4.42**, a gradual drop falls under **\$503k** was noted as a

result. However, the increase in value of **\$331k** in 2017 account was noted below the amount reported as the increasing figure from year 2015 to year 2016 amounting to **\$503k** significantly.

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

- The audit detects the \$1.36m variance of over **\$264k** was noted between the Imprest Control (Customer Mod) of **\$4,759,769.14** as per Trial Balance and the Aging report figure of **\$3,394,506.89**.
- Follow up audit on the 2016 audited account still appears as a remaining issued not yet resolved in 2017 plus additional finding included in the second table below as part of the audit finding for 2017 annual account. The variance detected both table proves to be the major problem due to the lack of system The audit had selected eight (8) officers to perform it comparative analysis mainly on their balances as per Imprest Card against balances displayed in the Trial balance 2016 the outcome of which indicates the variances noted in the table below:

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

Items #	Code #	Nam	Trial balance(A)	Imprest card (B)	Aging report(L200A-02A ©	Total(A+B)	diff amount(B-C)
	abstract figure	Teairo Ioane Banti		\$ (463.77)	\$ 4,750.00	\$ (463.77)	\$ (5,213.77)
6	L200A007544A	Miika Bateri	\$ 395.00	\$ 1,850.00	\$ 560.00	\$ 2,245.00	\$ 1,290.00
7	L200A091048A	Mweai Teaiki (luta)	\$ 374.25	\$ 20,485.01	\$ 1,990.01	\$ 20,859.26	\$ 18,495.00
			\$ 769.25	\$ 21,871.24	\$ 7,300.01	\$ 22,640.49	\$ 14,571.23

- It was further noted with concern that one officer amongst the selected officials noted above (highlighted in yellow) does not have Imprest Card appeared in the system as conveyed by one officer from Imprest Unit thus had prevented audit team to conduct further investigation as required.
- For being unable to provide the actual balance for the deceased and those who already left the government services the absence of which would raise doubts on the genuineness of the record being kept.
- Also, the Accounting Division (Imprest) still could not distinguish between the locally funded trips from externally funded trips including the incidentals involved from the above outstanding dues.

- It was detected during the Exit meeting with two Ministries that the Imprest shown by MFED as outstanding to the end of 2016 repeatedly included already cleared past Imprests by two SROs (MM and MPWU). This is pervasive and would also lead to issuing a Disclaimer.

In light of the above shortcomings, the audit would reiterate that MFED should refer to my prior audit report especially the 2015/2016 annual report for the appropriate comments and recommendations stated therein. The audit is of the belief that by taking into accounts such comments and recommendations seriously there would be lots of improvement expected in subsequent financial years.

Management response:

3.5.5 Other Advances – J0046 & J0044(2017 \$1,457.91) (2016: \$830,371.73)

- It has come to the audit attention that the balance for Other Advances as disclosed above had decline by \$59k (2016 \$830,371.73 less 2017 \$770,607.50). The balance for the above account (Other Advances) encompassed two codes namely J0046 and J0044 with amounts of **\$1,457.91** and **\$769,149.59** respectively.
- The audit notes that the code known as J0046 was dramatically decrease. As confirmed after checking the trial balance that the outstanding balance of \$1,547.91(\$400+676.03+381.88) as per detailed in the table below is the remaining balance not clear off in 2017.
- For J0046 (Banaba RCL), management had agreed that these account will re-allocate to suspense account and will become zero. As seen in the table below, the balance for Banaba RCL zero in the trial balance but still carry forward 2017 annual account as an active account. This applies to the same account which particularly had zero balances in the Trial balance.

Statement XVI:						
Account code	Account	Notes	Abstract per T/balance(A)	FY 2017(B)	variances(A-B)	Remarks
Other advances & standing		VII				
J0044001024A	Banaba RCL		\$ -	\$ 43,067.79	\$ -43,067.79	not stated in trial balance
J0044001025A	Unaccounted DR & CR & Diff..		\$ 769,149.61	\$ -	\$ 769,149.61	not recorded in the statement(XVI)
J0044226592A	Eritita Betero		\$ -0.02		\$ -0.02	same above
J0046001911A	standing imprest-Tatoa Teiwaki		\$ -	\$ -400.00	\$ 400.00	not stated in trial balance
J0046004721A	standing imprest-Taniera Kataua		\$ -	\$ 500.00	\$ -500.00	same above
J0046006054A	standing imprest-Taveni Temari		\$ -	\$ 6,000.00	\$ -6,000.00	same above
J0046006381A	standing imprest-Baitere Aiaimoa		\$ -	\$ 400.00	\$ -400.00	same above
J0046007551A	standing imprest-Taarai Kiatoa		\$ -	\$ -987.43	\$ 987.43	same above
J0046007770A	standing imprest-Tibou Ioteba		\$ -	\$ 1,483.85	\$ -1,483.85	same above
J0046007777A	standing imprest-Okoro Iuka		\$ -	\$ 1,600.00	\$ -1,600.00	same above
J004600789A	standing imprest-Iakobwa		\$ -	\$ 800.00	\$ -800.00	same above
J0046093101A	standing imprest-Taataai Tata		\$ -	\$ 6,500.00	\$ -6,500.00	same above
J0046007538A	Tabuia Kaiekieki		\$ 400.00	\$ -	\$ 400.00	not recorded in the statement(XVI)
J0046007705A	Willie Tekanene - Postmaster		\$ 676.03	\$ -	\$ 676.03	same above
J0046007766A	Tiotibin Matiota - Postmaster		\$ 381.88	\$ -	\$ 381.88	same above

- As stated in my last year (2015) report the static figures appearing under these codes would of course continuously distort the balance of the advances account if are not corrected or discarded in the proper manner.
- Hence management should consider this reported incident and to conduct proper review on these accounts and also to ensure that the inactive accounts or codes do not appear in subsequent annual accounts.

Management response:

3.5.6 Sundry Advances (K0480, K0050, K0049, K0048) \$2016 -\$235,175.13 (2017: \$183,889.74)

The balance of Sundry Revenue disclosed in the annual account was negative **\$183,889.74(2017)** however when compared with last year negative balance of **\$235,175.13(2016)** the difference of **\$51k** was fall under the variance realized **\$152k** as a result. It was confirmed that the difference of \$51k was noted as the decrease in value from year 2016 to 2017 respectively, thus indicated trivial improvement levied by management. Nevertheless, the amount reflected above was still credit (negative) under the assets side (Balance sheet refers) which means that Government owed these sums to officials instead of being owed by them and therefore responses or comments from concerned officials are also sought herewith.

Code Name	2016	2017	Inc/Dec
K00480's	165	\$ 165.00	\$ -
K00490's	58148.03	\$ 22,859.00	\$ 35,289.03
K0050's	22636.25	\$ 23,525.90	-\$ 889.65
K0480	-316,124.41	-\$ 230,439.64	-\$ 85,684.77
Total	-235175.13	-\$ 183,889.74	-\$ 51,285.39

Management response:

3.6) STATEMENT VIII: ADVANCES FROM DEPOSITS 2016

NO advances were made from deposits in financial year 2017.

3.7) STATEMENT IX: DEPOSITS WITH THE GOVERNMENT OF KIRIBATI

Findings and Analysis:

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

3.7.1 Summary of deposits account for years ending 2014 up to 2017**Table 3.7A: Value of deposits account for 2014-2017**

Description	FY 2014	FY 2015	FY 2016	FY2017	(Inc)/Dec 2017	(Inc)/Dec 16
DNE	-1,181,224.36	-1,020,977.67	-1,253,402.14	-1,192,546.05	-60,856.09	-232,424.47
Public Officers	-32,420.50	-34,419.00	-36,809.00	-8,785.71	-28,023.29	-2,390.00
Sundry Deposits	863,582.04	-5,115,516.81	-10,075,040.55	1,011,420.73	-11,086,461.28	-4,959,523.74
Telmo	-794,439.42	5,580,644.80	11,205,342.83	-4,711,437.68	15,916,780.51	5,624,698.03
Total	-1,144,502.24	-590,268.68	-159,908.86	-4,901,348.71	4,741,439.85	430,359.82

(Source: Annual Account 2014-2016)

The table provided above displays the balance of deposit accounts for the past four consecutive years from 2014 up to 2017. However, at the end of 2017 the deposit accounts balance had a net balance of over negative \$4.90m; a dramatic in the value of \$4.74m was noted when compared with last year balance of over negative \$430k. Further, most of the balances appearing under the deposits accounts included massive unreconciled figures as indicated in sub accounts anomalies noted below.

3.7.2 Deceased National Estate (DNE) - 2017 \$1,192,546.05 (2016: \$1,253,402.14m)

After reviewing the above account, the audit found the variance of **\$1,122,953.52** between the Finance records against the Land Division (MELAD) records as indicated below. This is a similar issue repeatedly reflected in the previous audit report and it seems that MFED had not considered implemented.

Details	Amount
Balance as per Annual Account	\$1,192,546.05
Balance as per MELAD Records(Ministry)	\$69,592.53
Variance	1,122,953.52

As noted the variance detected above was due to the absence of proper and regular reconciliation being conducted by the MFED and MELAD respectively. The absence of proper reconciliation for the above account could raise doubt on the accurateness of amount which actually owed by Government to all related beneficiaries. Therefore, management should provide explanations on the variances detected above accordingly.

2015/2016 Implication:

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

2015/2016 Recommendations:

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

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

Management response:**3.7.3 Sundry Deposits:**

As evidently shown in the table provided below the sundry deposit balance in 2017 had positive balance of \$1.01m

Table 3.7B: Balance of Sundry Deposit for years ending 2014 - 2017

Year	2014	2015	2016	2017	(Inc)/dec 2016	(Inc)/dec 2017
Year Total Sundry Deposits	\$863,582.04	-\$5,115,516.81	-\$10,075,040.55	\$1,011,420.73	\$4,959,523.74	-\$11,086,461.28

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

3.7.3.1 Sundry deposit- \$1,011,420.73

The audit notes that the total balance for sundry deposits of \$1.0m becoming positive compared to the negative balances of \$(10,075,040.55) recognize in 2017. After going the General Ledger, the audit identified No.5 PPI Unreconciled balance of \$2,341,042.05 from the NO. 5 (Bank Reconciliation as cut off) allocated under the sundry deposit thus inflate the balance causing the total value for sundry deposit positive. Management request to provide further clarification as why No.5 PPI allocates under the Sundry deposit.

Balance as per Bank staement	\$300,557.13
Plus Deposits not on statement	\$65.80
Total Balance	\$300,622.93
Less withdrwals not on staement	\$528,790.47
Reconciled Bank Balance	\$(228,167.54)
General Leger Balance	\$2,112,874.51
Variance	\$2,341,042.05

Management response:**3.7.3.2 Bank Agency Arrangement – 2017 \$5,358,216.19, 2016\$5,076,240.67**

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

- By comparing the balance reported last year (2016) of **\$5,076,240.67** with that reported as the balances for 2017 valued at **\$5,358,216.19** the discrepancy of over **\$281k** was noted as the increases in value from 2016 to 2017 respectively. The balance of the above sub account had kept increasing over the financial years and this could raise more concerns as the increases in value signifies that withdrawals were been made exceeding the actual amount been deposited by respective island council treasurers.
- After going through the Direct Debit, Direct Credit and State fund as state below, the audit cannot verify because the document of SB25 were not available during the audit.

Direct Debit			
Date	Narration	BTL Ref	Amount
16/02/17	Debit A9 Tabuaeran DD13/02/2017	BD1702018	34,120.00
7/3/2017	Debit SB25#136 Butaritari Island Deposit	BD1703022	42,018.95
13/03/17	Debit SB25#23 A7 Beru Island Deposit Dated 05/10/to 2	BD1703037	23,186.60
6/4/2017	Debit SB25 #002/17 Abemama island Deposits Dated 06/02	BD1704015	29,178.50
27/04/17	Debit A9 SN14DEP dd 09/04/2017 &07/04/2017	BD1704066	29,820.00
4/5/2017	Trans Capture sys SB25 Marakei island depdated 01/0	BD1705031	43,496.74
6/7/2017	Debit A9 SN12 DEP 13/04/17-27/04/17	BD1707015	33,335.00
8/9/2017	Off SYS No P/Book A1 AbaiangSN025 Total Dep	BD1709010	60,978.00
12/9/2017	Debit A5 Arorae SN126 dd 5/09/- 06/092017	BD1709024	36,827.50
2/10/2017	Debit A16 Nonouti DEP23/08- 24/08/2017	BD1710003	35,060.00

Direct Credit			
Date	Narration	Ref	Amount
20/02/17	SB25 020 Eutan Tarawa Council withdrawls	RV201702195	23,989.25
7/3/2017	Credit SB25#021 Withdrawls dated 21/12/2016	RV201703190	23,631.00
27/03/17	Credit SB25#021 Butaritari Withdrawls dated 24/01-25/01/17	RV201703310	37,110.00
26/05/17	A3 Abemama Sn07/17 01/5-18/05/17	RV201706246	26,063.75
17/07/17	SB25 #34 Abaokoro WDLs 22/03- 31/03/17	RV#201707237	20,415.00
17/11/17	A16 Nonouti is wd REIMB 01/09-29/01	RV#201710212	40,670.00

State Fund		
Month	Narration	Amount
Jan	TabNorth2017	20,028.55
Jan	TamanState fund 2017	17,690.00
Jan	Butaritari S/fund	45,260.00
Feb	Maiana State fund	(22,020.00)
May	Abemama State fund	30,613.75
June	Butaritari S/fund	49,341.50
August	NTRW s/fund	52,802.40
August	Butaritari S/fund	(57,610.00)
December	TabNorth2017	28,664.65
July	Aranuka S/fund2017	30,271.45

Management response:

3.7.3.3 Prior Period Items Unclaimed cheques 2017 \$709, 2016 \$605k

It has come to the audit attention that the unclaimed cheques had significantly increased by \$104k. It was also noted that the total balance as per aging stale cheques NO.1 and NO.4 (refer table below) does not match with G.L thus incurred a colossal variance of \$1.08m which require management to provide explanations accordingly. Further details of these stale cheques can be provided upon request.

Balance as per Stale cheq#1	1,314,733.72
Balance as per Stale cheq#4	476,440.08
	1,791,173.80
Balance as per G/ledger	709,322.88
Total	1,081,850.92

Management response:3.7.3.4 Valid Cheques \$3,989.22

The audit had managed check and go through the list of Stale Cheques and confirmed that the following cheques (listed in the table below) should not be included as Stale cheques since these cheques still valid which does not fall within the six month time frame.

Valid Cheques-2017				
2290	8/8/17	Koes	149242	\$237.50
2294	8/10/17	Coral Ace	149260	\$346.00
2284	8/11/17	Ngaua M	1173029	\$62.50
2295	8/17/17	Coral Ace	149312	\$180.78
2296	8/17/17	Slim Price	149298	\$76.80
2283	8/18/17	Matang Kaburara	149506	\$70.00
2285	8/22/17	Kaokatekai Kaino	1173168	\$31.00
2340	9/5/17	Cash (Tikua Tekitanga)	149561	\$490.00
2323	9/21/17	Moel	1174490	\$387.30
2345	9/22/17	Cash (Aitiria Terekeia)	1174140	\$110.20
2303	9/26/17	DNY	1174510	\$172.74
2341	9/27/17	Cash (Maraen Ngaren Santo)	1174177	\$30.00
2342	9/27/17	Cash (Kaitangare Tekeke)	1174187	\$118.75
2351	9/27/17	Cash (CM Truck)	1174186	\$76.00
2343	10/3/17	Cash (Nairoo Remwera)	1173680	\$47.50
2355	10/3/17	Cash (Nan Step Boys)	1173682	\$190.00
2357	10/3/17	Cash (Golden Bright)	1173676	\$64.80
2346	10/3/17	Cash (AT Boys Truck)	1173687	\$47.50
2339	10/5/17	Cash (Peter L Malavisi)	1173704	\$10.00
2347	10/5/17	Cash (Tepaiku)	1173706	\$177.60
2350	10/5/17	Cash (Kaarebo Mackenzie)	1173701	\$300.00
2348	10/11/17	Cash (SDA Betio)	1173762	\$40.60
2314	10/12/17	Gecs Restraunt	1174591	\$119.20
2338	10/13/17	Cash (Beia Tabwaia)	1174604	\$140.00
2344	10/13/17	Cash (Sr Bernadette)	1174881	\$140.00
2322	10/23/17	Tekokona Shipping Services	1173442	\$294.00
2349	10/26/17	Cash (Tiaon Mwea)	1174755	\$28.45
		Total		\$3,989.22

3.7.3.5 Bank Salaries \$2,587,293.96

The above accounts represent the Clearing account of Employee's Salaries which are paid on cash and also credit under their Bank Account. In principle, the balance of this account at the end of the financial year should be nil, as codes debited once the Salaries to paid to the Bank and also will be credited to offset the debit balances.

Details	Amount
Opening balance	(13,556,258.06)
Add	\$72,772,901.72
Less	\$56,629,349.70
Balance	\$2,587,293.96

3.7.3.6 In- active Sundry deposit balances of \$1.79m

The audit noted some sundry advance accounts balances remain unchanged since the year 2016-2017 or prior and the amount involved was \$1.79m. This was one of the repeated issues and was also reported in my last year report but there had not been any action taken yet. Details of these static balances by items are provided hereunder:

Table 3.7C: Values of inactive sundry deposits account for 2016 and 2017

In-active Sundry Deposits accounts item				
Allocation	Description	2017	2016	Inc/Dec
O0050006013A	Sundry Dep for NY	(61,212.42)	(61,212.42)	-
O0050006024A	Prison Fund	(33.40)	(33.40)	-
O0050006040A	Security Bond Immigration	(103,258.69)	(103,258.69)	-
O0050006113A	BOK Savings Accounts	(276,965.09)	(276,965.09)	-
O0050006140A	Telecom training costs	0.20	0.20	-
O0050006150A	Police Fund	5,550.11	5550.11	-
O0050006321A	Judiciary-Deposit(KSSL/BSL	40.00	40.00	-
O0050006329A	BKL Deposit On Outer Island	(1,271,310.94)	(1,271,310.94)	-
O0050006335A	N01 PPI unreconciled balance	1,025.70	1,025.70	-
O0050006338A	Outer island other deposit	143,690.52	143,690.52	-
O0050007186A	Uncollected Telmos	(13,503.80)	(13,503.80)	-
O0050007792A	Deed of Release 2007-08 MPLID	(199,161.61)	(199,161.61)	-
O0050009999A	Bank Charges Salary Deductions	(21,940.55)	(21,940.55)	-
		(1,795,062.97)	(1,795,063.97)	

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

Management response:

3.7.4 Telmo Accounts: \$4,711,437.68m

At the end of 2017 the balance of Telmo account had slight decrease with the amount of **\$4,711,437.68** a drastic decrease of **\$6.49m** was realized when compared with the increase balance reported last year, 2016, of **\$5.62m**. However, the audit noted the following anomalies as stated below:

3.7.4.1 Telmos Paid (PF25) \$8,790,970.80

- The balance for Telmo accounts as reflected in the Annual Account 2017 was \$8,790,970.80. As noted, the balance reported above was made up from the totaled Telmo balance (credited) \$123,015,171.74 (I0053) and the net balance of \$131,806,142.54 for totaled debited balance (I0053) account respectively. However, the audit realized that the balance reported under Statement VIII deposit account as clearing account should have zero balance at the financial year 2017.
- Table insert

- The totaled of \$98,510.78 old telmos issued(receipts) for Nauru, and Tuvalu under I0051 had reported remaining in the annual account. No variance as Trial balance compared to Annual account, except for the balance due from Nauru and Tuvalu which has increased by about \$98K. The reason for this is that the I0051-7001A and I0051007004A highlighted figure has not taken up under I0053. which is a concerned by the audits, started adjusting in the telmos account dated 31 December 2017 refer provided table below: reference (JV #) and hence telemo account was understated that amount of \$98,510.78.
- Totaled brought opening balance of \$12,748,746.56 million reflected in the PF25. Therefore, no aging report & listing provided to attach the journal vouchers dated for 31.12.17. (Refer provided table below).

		database system	Attaches GL	Summarize posting		
GL codes	Details	PF25-receipts	PF25-receipts	clearing trans PF27-paid	Closing balance GL	Independently reviewed Yes/No
I0053000003A	Nonouti State Fund	\$136,415.50	\$ 136,415.50	x	√ increase	x
I0053000003A	Nonouti State Fund	\$151,971.45	\$ 151,971.45	x	√	x
I0053000003A	Nonouti State Fund	\$123,357.51	\$ 123,357.51	x	√	x
I0053000003A	Nonouti State Fund	\$181,214.65	\$ 181,214.65	x	√	x
I0053000003A	Nonouti State Fund	\$187,597.95	\$ 187,597.95	x	√	x
I0053000003A	Nonouti State Fund	\$136,115.92	\$ 136,115.92	x	√	x
I0053000003A	Nonouti State Fund	\$145,892.00	\$ 145,892.00	x	√	x
I0053000003A	Nonouti State Fund	\$147,593.15	\$ 147,593.15	x	√	x
I0053000003A	Nonouti State Fund	\$143,317.20	\$ 143,317.20	x	√	x
I0053000003A	Nonouti State Fund	\$124,538.65	\$ 124,538.65	x	√	x
I0053000003A	Nonouti State Fund	\$136,930.00	\$ 136,930.00	x	√	x
I0053000003A	Nonouti State Fund	\$ 86,904.40	\$ 86,904.40	x	√	x
HQJV 1435	SU29/17 trasnfer telmo o/bal		\$ 6,675,771.14	x	√	x
HQJV 1435	SU29/17 trasnfer telmo o/bal		\$ 6,072,975.42	x	√	x
			\$ 14,450,594.94			

- Not accuracy of that total transfer balance of \$12.7 m as shown in the journal voucher # HQJV1336 &1435 because of brought opening balance is consistent with the aging report.

Date	JV#	Code	Detail	Abstract per GL	Remark
31/12/2017	HQJV 1336	I0053-14A	SU 20/17 transfer o/bal issued	\$ 6,675,771.14	no available listings-breakdown
31/12/2017	HQJV 1435	I0053-14A	SU29/17 transfer telmo o/bal	\$ 6,072,975.42	same above
			Total	\$ 12,748,746.56	

- PF27 paid – a paper form due was in-completed signed off by payer the sum of \$1,050.00.

Date payment	Office payment	PF 27 #	Abstract figure	Receiver name	Payer certified
9/5/2017	abaiang		250.00	Rabangaki Bauati	x
9/5/2017	abaiang		50.00	Teiraeng Toaki	x
9/6/2017	abaiang	32	50.00		x
9/6/2017	abaiang	33	150.00	Naota Erita	x
9/6/2017	abaiang	34	50.00	Raubane Mikaele	x
9/6/2017	abaiang	35	100.00	Tererei Ritie	x
9/6/2017	abaiang	36	150.00	Tabo/cori lanon	x
9/6/2017	abaiang	37	30.00	Makerite Taeniti	x
9/7/2017	abaiang	42	200.00	Ratita	x
9/7/2017	abaiang	43	20.00	Mareko Betero	x
			\$ 1,050.00		

- After verifying the PF25(Telmos) returns from selected outer Island Nonouti, the audit had managed to identified the variance of \$14,450,594.94 which assures that the variance noted should be offset from the General to clear off the amount.

		database system	Attaches GL	Summarize posting		
GL codes	Details	PF25-receipts	PF25-receipts	clearing trans PF27-paid	Closing balance GL	Independently reviewed Yes/No
I0053000003A	Nonouti State Fund	\$136,415.50	\$ 136,415.50	x	√ increase	x
I0053000003A	Nonouti State Fund	\$151,971.45	\$ 151,971.45	x	√	x
I0053000003A	Nonouti State Fund	\$123,357.51	\$ 123,357.51	x	√	x
I0053000003A	Nonouti State Fund	\$181,214.65	\$ 181,214.65	x	√	x
I0053000003A	Nonouti State Fund	\$187,597.95	\$ 187,597.95	x	√	x
I0053000003A	Nonouti State Fund	\$136,115.92	\$ 136,115.92	x	√	x
I0053000003A	Nonouti State Fund	\$145,892.00	\$ 145,892.00	x	√	x
I0053000003A	Nonouti State Fund	\$147,593.15	\$ 147,593.15	x	√	x
I0053000003A	Nonouti State Fund	\$143,317.20	\$ 143,317.20	x	√	x
I0053000003A	Nonouti State Fund	\$124,538.65	\$ 124,538.65	x	√	x
I0053000003A	Nonouti State Fund	\$136,930.00	\$ 136,930.00	x	√	x
I0053000003A	Nonouti State Fund	\$ 86,904.40	\$ 86,904.40	x	√	x
HQJV 1435	SU29/17 trasnfer telmo o/bal		\$ 6,675,771.14	x	√	x
HQJV 1435	SU29/17 trasnfer telmo o/bal		\$ 6,072,975.42	x	√	x
			\$ 14,450,594.94			

- After verifying the PF27(Telmos) returns from selected outer Island Nonouti, the audit had managed to identified the variance of \$4,894,183.53 which assures that the variance noted should be offset from the General to clear off the amount.

		Database system	Attaches GL	Summarize posting		
GL codes	Details	PF27-receipts	PF27-paid per Nonouti	clearing trans PF25-receipts	Closing balance GL	Independently reviewed Yes/No
I0053000003A	Nonouti State Fund	\$ 17,892.20	\$ 17,892.20	x	√ increase	x
I0053000003A	Nonouti State Fund	\$ 38,665.05	\$ 38,665.05	x	√	x
I0053000003A	Nonouti State Fund	\$ 37,631.95	\$ 37,631.95	x	√	x
I0053000003A	Nonouti State Fund	?	\$ 31,017.41	x	√	x
I0053000003A	Nonouti State Fund	\$ 82,221.77	\$ 82,221.77	x	√	x
I0053000003A	Nonouti State Fund	\$ 21,335.40	\$ 21,335.40	x	√	x
I0053000003A	Nonouti State Fund	?	\$ 38,622.07	x	√	x
I0053000003A	Nonouti State Fund	\$ 29,953.85	\$ 29,953.85	x	√	x
I0053000003A	Nonouti State Fund	\$ 33,934.30	\$ 33,939.30	x	√	x
I0053000003A	Nonouti State Fund	\$ 43,563.80	\$ 43,563.80	x	√	x
I0053000003A	Nonouti State Fund	\$ 29,510.80	\$ 29,510.80	x	√	x
I0053000003A	Nonouti State Fund	\$ 49,770.65	\$ 49,770.65	x	√	x
I0053000003A	Nonouti State Fund	\$ 28,766.45	\$ 28,766.45	x	√	x
HQJV 1434	SU29/17 transfer telmo o/bal		4,411,292.83	x	√	x
			\$4,894,183.53			

- The PF27 paid of \$31,017.41 and \$38,622.07(refer table above) was reflected in GL but does not appear in the database which simply implied lack of reconciliation.
- As recall from previous audit of 2016 annual account, the audit aware of the case relate to the double payment incurred 2016 which result in the termination of the officer concerned. The audit conscious of the amount of \$10,000 whether this amount will be recover by officer as the result of the court hearing.
 "Further, there was one significant issue found during the audit and this was related to the double payment of telmo number 961625 amounting to \$10,000.00. The double payment incurred in 2016 was deliberately caused by one former cashier at MFED in which she manipulated the system by inserting the letter (a) at the far end of telmo # 961625a as she knows that the system does not accept the repetitive telmo number. This was an act of theft and it is pleasing to note that the officer concerned was already terminated and now awaiting the Court hearing as the police investigation on this case was also completed and submitted to AG's office on the 06/06/17 for further legal actions."

Management sought to provide response to the anomalies stated in the bullet point above.

2015/2016 Recommendations:

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

Management response:

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

In accordance with CAP 79 Part VI Sec 40 (ix) the Accountant General is also required to transmit a statement of Contingent Liabilities showing the Financial Position at the end of each financial year. Provided below is the Contingent Liabilities balances for the year ended 31/12/2015 up to 2017 as follows:

Table 3.8 A: Contingent Liabilities balance for years ending 31/12/15 – 2017.

Liabilities with ANZ Bank (Kiribati) Ltd.	2015	2016	2017	Inc/Dec 2016	Inc/Dec 2017
Letter of Credit Facility	902,720	2,433,627	2,075,832	- 1,530,907	357,795
Visa Business Card Facility	280,000	280,000	280,000	-	
Liabilities with Internantional Monetary Fund (IMF)					
Promisory Notes 3990000 SDR	6,891,191	6,891,191	8,190,000	-	- 1,298,809
Callable Capital by International Bank For reconstruction & Development			990,000	-	- 990,000
Callable Capital by International Bank For Development Association			54,000	-	- 54,000
On call 990,000 SDR	1,880,829	1,880,829		-	1,880,829
Liabilities with International Development Association (IDA)					
On call 54,000 SDR	93,264	93,264		-	93,264
KPF Quarantee			5,411,450	-	- 5,411,450
TOTAL CONTINGENT LIABILITIES	10,048,004	11,580,927	17,001,282	- 1,532,923	- 5,420,355

- The Contingent liabilities were comprised of six different sub accounts as clearly indicated in the table provided above. The balance reported in 2017 of **\$17m** was noted increase when compared with last year 2016 balance of **\$11.5m** however as of 2017 the balance had hurdled to **\$17m** thus resulted in reporting the increase in value of **\$5.4m**.
- The increase in the value noted in 2017 derived from the newly inclusion of the accounts callable capital (\$990,000 + \$54,000) plus the KPF Quarantee \$ thus inflate the total balance to \$17m causing the increase in the value of \$5.4m.
- Further, another contribution factor to the increase in the value of the contingency liabilities was caused by the escalate in the IMF Promissory notes by \$1.29m hence the increase in the value.

Management response:**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 2015 to 2017

Allocation	Description (Investment)	2015	2016	2017	Variance 2015-2016		Variance 2016-2017	
					Increase	Decrease	Increase	Decrease
	RERF							
V006-100A	Investment with HSBS	\$ 371,865,017.32	\$ 18,478.29	\$ -		\$ 371,846,539.03		\$ 18,478.29
V006-200A	Northern trust	\$ 384,394,184.62	\$ 428,744,109.50	\$ 443,443,353.31	\$ (44,349,924.88)		\$ (14,699,243.81)	
V006-203A	State street	\$ 80,850,388.02	\$ 57,854,285.79	\$ -		\$ 22,996,102.23		\$ 57,854,285.79
V006-204A	Black Rock	\$ -	\$ 439,348,634.20	\$ 499,023,002.01	\$ (439,348,634.20)		\$ (59,674,367.81)	
	Sub Total 1	\$ 837,109,589.96	\$ 925,965,507.78	\$ 942,466,355.32	\$ (88,855,917.82)		\$ (16,500,847.54)	
	LAND							
V006-201A	Escrow Land Purchases-Fiji	\$ 9,300,180.00	\$ 9,300,180.00	\$ 9,300,180.00	\$ -	\$ -	\$ -	\$ -
	PIPA							
V006-202A	PIPA TRUST FUND	\$ 2,623,224.00	\$ 2,623,224.00	\$ 2,623,224.00	\$ -	\$ -	\$ -	\$ -
	Sub Total 2 (LAND AND PIPA)	\$ 11,923,404.00	\$ 11,923,404.00	\$ 11,923,404.00	\$ -	\$ -	\$ -	\$ -
	OTHER INVESTMENT							
V006-104A	Esrow Investment	\$ 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 Anniversar	\$ 23,819.40	\$ 23,819.40	\$ 23,819.40	\$ -	\$ -	\$ -	\$ -
V006-124A	Aud a/c 56-0449, 10th Anniversar	\$ 8,731.00	\$ 8,731.00	\$ 38,731.00	\$ -	\$ -	\$ -	\$ -
	sub total 3	\$ 432,611.33	\$ 432,611.33	\$ 396,074.57	\$ -			\$ 36,536.76
	GRAND TOTAL	\$ 849,465,605.29	\$ 938,321,523.11	\$ 954,785,833.89	\$ (88,855,917.82)		\$ (16,464,310.78)	

The above table features four (4) different types of sub Investments which composed of: i)RERF(Revenue Equalization Reserve fund at \$942m, ii)Land \$9.3m, iii) PIPA(Phoenix Island Protected Area \$2.6m and iv) Other Investments with total amount of \$396k. It is pleasing to note that the revealed total investment balance had escalate to \$954m(an increase of \$16m i.e 2016 \$938m- 2017 \$954m).

The audit noted the change for State street from V00_203A to M003_024A under CASH TRUST by \$57m. This change was effectively reflected in the Statement of Revenue Equalisation Reserve Fun and Cash Trust 2017 under Cash Trust with contribution of \$30m which gave us total of \$87m (refer Pg 53 2017 Annual account). concerned

However, Investment with HSBS \$18,478.29 was unable to verify it hence the amount stated was treatedd as a loss which had noted under Net Loss on Unrealised to offset market the vau of \$18,478.29 to become zero balance (refer to page 53 annual account). Therefore, management requested to give explanation to the changes noted in related to the transitions of value of \$18,478.29 whilst 2016 stating the amount of \$18,478.29 was the remaining balance.

3.9.1 Other Investments Status

As discovered when conducting the audit for above account some investment accounts, the details of which are displayed in the table above, were never changed in value (inactive) for more than 3 years back hence, as a result no interest were expected for such investments. However, the audit noted overstatement issue reported in my previous audit report regarding the Net worth of Government overstatement of the inactive account for Escrow Investment which had cleared off from the above table. However, the audit noted with concern for management response on how the process for clearing off this account, is there policy in placed that specified the right of Government to abort or to clear off it.

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 explanations in related to the transitions of Escrow and HSBC investment whilst the value of such investment become zero.

Management response:**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 31/12/2017

The table below shows the outstanding loans from the consolidated fund for year ending 31/12/2015 up to 31/12/2017 as follows:

Table 3.10A: Outstanding loan balances from Consolidated Fund (2015-17)

Borrower	Financial from	Year	Aging	Principal	OS Balance as per Annual Account 2015	OS Balance as per Annual Account 2016	OS Balance as per Annual Account 2017	Variance 2015 and 2016	Variance 2016 and 2017
DBK	Consolidate Fund	1962	55	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ -	\$ -
DBK	Consolidate Fund	1977	40	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00	\$ 20,000.00	\$ -	\$ -
KCWS	Consolidate Fund	1977	40	\$ 794,654.00	\$ 794,654.00	\$ 794,654.00	\$ 794,654.00	\$ -	\$ -
Air Tungaru	Development Fund	1980	37	\$ 180,000.00	\$ 180,000.00	\$ 180,000.00	\$ 180,000.00	\$ -	\$ -
Air Tungaru	Development Fund	1981	36	\$ 300,000.00	\$ 300,000.00	\$ 300,000.00	\$ 300,000.00	\$ -	\$ -
DBK	Development Fund	1971	46	\$ 64,000.00	\$ 64,000.00	\$ 64,000.00	\$ 64,000.00	\$ -	\$ -
Te Matauri Ltd	Development Fund	1981	36	\$ 250,000.00	\$ 250,000.00	\$ 250,000.00	\$ 250,000.00	\$ -	\$ -
Housing Corporation	Development Fund	1983	34	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ -	\$ -
KCWS	Stabex Fund	1986	31	\$ 415,000.00	\$ 415,000.00	\$ 415,000.00	\$ 415,000.00	\$ -	\$ -
PUB	ADB	1988	29	\$ 2,860,798.00	\$ 2,860,798.00	\$ 2,860,798.00	\$ 2,860,798.00	\$ -	\$ -
Betio Shipyard	ADB			\$ 894,963.00	\$ 894,963.00	\$ 894,963.00	\$ 894,963.00	\$ -	\$ -
DBK	ADB	1990	27	\$ 1,180,071.00	\$ 1,180,071.00	\$ 1,180,071.00	\$ 1,180,071.00	\$ -	\$ -
Total				\$ 7,159,486.00	\$ 7,159,486.00	\$ 7,159,486.00	\$ 7,159,486.00	\$ -	\$ -

(Source: Extract 2017 Annual Account)

The audit discovered that prior audit findings and recommendation still one of the outstanding and repetitive issues from previous audit for outstanding loans which had clearly signified the failure of management for undertaking a review and clearance of these loans from consolidated fund as follows:

- In conducting the audit for 2017 annual account, the audit check revealed that the outstanding loans from some of the Government State owned enterprises which were brought forward from previous years in the sum of \$7.1m remained unchanged. This indicated that corresponding repayments on such prolonged loans have been neglected for period of times since the establishment of these loans.
- Some of these outstanding loans had been existed for more than 50 years which was further noted that some companies had been liquidated. In fact, some companies still revive but there's no indication of repayment as decision for write off these outstanding loans vested within the approval of Parliament with advice and recommendation of the PAC. Hence management update on actions been taken to date is sought herewith.

Recommendations:

- All overdue loans from the Consolidated and Development fund must be cleared and seek PAC for recommendations to write off these loans from the records to avoid the reiteration of same issues being reported over the years.

Management Response:

3.11) Statement XIII – Public Debts as at 31/12/2017

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 31/12/2017 could be viewed at appendix 6 of this report.

Findings and Analysis:

The audit noted that the control system over voted ledger register it was satisfactory improved as follows:

Code	Acc loan #	General ledger	Annual account	Variances
E30010000351	ADB loan No. 281 KIR (SF)NIPPO	\$ -	\$ -	\$ -
E30010000352	ADB loan No. 724 KIR (SF)Shipy	\$ -	\$ -	\$ -
E30010000353	ADB loan No. 786 KIR (SF) PUB	\$ 22,877.00	\$ 22,877.00	\$ -
E30010000354	ADB loan No. 922 KIR (SF) PUB	\$ -	\$ -	\$ -
E30010000355	ADB loan No. 1039 KIR (SF)DBK	\$ 27,076.00	\$ 27,076.00	\$ -
E30010000356	ADB loan No.1648 KIR (SF)SAPHE	\$ 205,155.00	\$ 205,155.00	\$ -
E30010000358	ADB loan No.2718 (SF) R/ rehab	\$ 204,675.00	\$ 204,675.00	\$ -
E30010000370	Bank charges	\$ 1,017,442.00	\$ 1,017,442.00	\$ -
E30010000371	Civil suites	\$ 707,109.00	\$ 707,109.00	\$ -
E30010000372	ICDF loan No.KIRO-01-1503 Int.	\$ 156,584.00	\$ 156,584.00	\$ -
TOTAL LOAN REPAYMENT FOR 2017		\$ 2,340,918.00	\$ 2,340,918.00	\$ -

As reflected above the table is identified the actual total loan repayment of the loan which have be able to determine the outstanding of Public Debt for 2017 as follows:

- **Debt servicing \$2,340,918**
- i. The Debt Servicing account for loan repayment was increased to \$1.1m (2016: \$1,204,355.86-2017: \$2,340,918.00) comprised of: ICDF Loan, ADB Loan (#s 281, 724, 786, 922, 1039 and 1039,1648), other financing bank charges and civil suites account. The debt servicing value increased by \$1.1 m compared the fiscal year with previous years' balance of \$ 1,204,355.86 (a one-year period end December 2016 to end December 2017).
- There is an improvement in the control system over the vote data register and the audit ascertained that the table disclosed in 2017 noted the completeness of the account in related to total outstanding for 2017 except 2016.
- Further, the audit discovered the same repetitive issues from prior audit report 2016 as noted again in the Statement of Public Debt for the year ended 2017 Bank charges and Civil suites not budgeted for but still paid.

Recommendations:

- ✓ MFED should commence its review on the position of Public Debts so as to be able to provide a more reliable balance.
- ✓ MFEP need to recheck and confirm the remaining balance brought forward every year in order to determine outstanding balances each year.

Management response:

3.12) Statement XIV - Arrears of Revenue

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

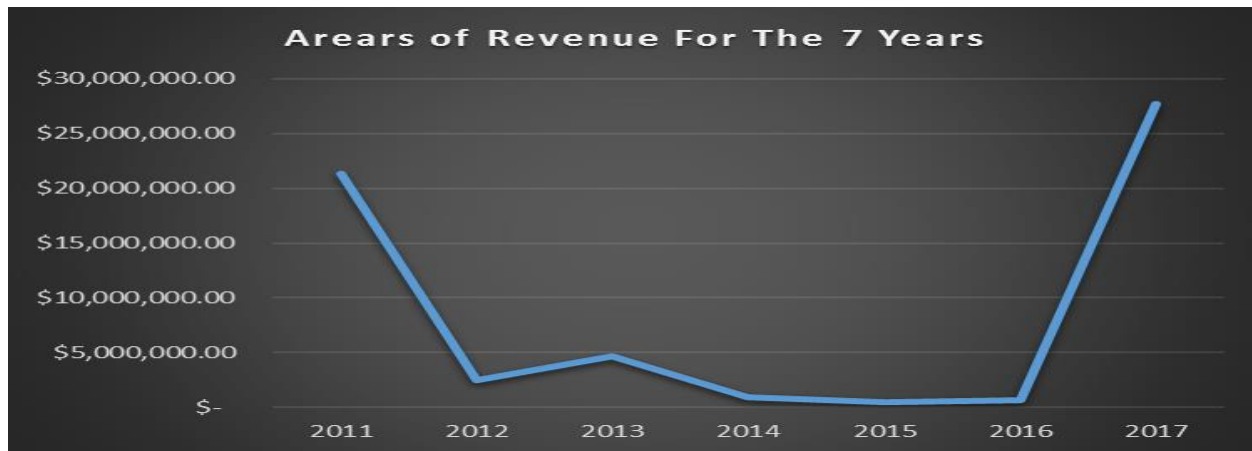
Findings and Analysis:

The audit discovered the same repetitive issues from prior years were remained the same with 2017 Annual Account whereas the accumulation of revenue arrears still not yet addressed till to date:

Table 12A: Balance of Arrears of Revenue for 2012-2017

REPORT OF THE AUDITOR GENERAL ON THE 2017 GOVERNMENT OF KIRIBATI ANNUAL ACCOUNT PART 2

		Amount						
Year	Ministries Prior Balance	2012	2013	2014	2015	2016	2017	Total
	Balance outstanding prior 2011							\$ 21,305,871.83
2012	Ministry of Finance and Economic Planning	\$ 2,515,315.00						\$ 2,515,315.00
2013	Ministry of Education Training and Technology		\$ 71,647.00					
	Ministry of Environment and Social Development		\$ 85,335.50					
	Ministry of Finance and Economic Planning		\$ 4,505,508.00					
	Sub total		\$ 4,662,490.50					\$ 4,662,490.50
2014	Judiciary High Court			\$ 893.00				
	Ministry of Environment and Social Development			\$ 674,072.70				
	Ministry of Education Training and Technology			\$ 54,435.00				
	Ministry of Line and Phoenix Development			\$ 243,196.47				
	Sub total			\$ 972,597.17				\$ 972,597.17
2015	Rurubao				\$ 5,080.25			
	Teabike College				\$ 23,660.00			
	Meleang Tabai Secondary School				\$ 11,525.00			
	KGV and EBS				\$ 17,410.00			
	Kiribati National Audit Office				\$ 389,900.00			
	Kiribati Police Service				\$ 5,245.10			
	Maneaba ni Maungatabu				\$ 1,068.75			
	Sub total				\$ 453,889.10			\$ 453,889.10
2016	Ministry of Communication, Tourism, and Transport Development					\$ 537,004.30		
	Kiribati Police Service					\$ 294.00		
	Ministry of Line and Phoenix Development					\$ 123,588.92		
	Maneaba ni Maungatabu					\$ 15,366.76		
	Sub total					\$ 676,253.98		\$ 676,253.98
2017	Ministry of Environment and Social Development						\$ 1,617,291.00	
	Ministry of Line and Phoenix Development						\$ 357,048.00	
	Ministry of Finance and Economic Planning						\$ 25,718,787.00	
	Sub total						\$ 27,693,126.00	\$ 27,693,126.00
Grand Total (Total Accumulating Arrears of Revenue)								\$ 58,279,543.58

Figure 12A: Comparative analysis graph for Arrears of Revenue for year ending 2011-2017.

The balance of arrears of revenue had been fluctuated over the last five consecutive years as indicated in the graph/table provided above. It was noted that the total accumulating balance for arrears of revenue brought forward from previous years to 2016(2012-2016) had reached \$30m. Within those five years, the audit had identified that balance disclosed every financial year had been varied and this is due to the Ministry outstanding revenue not yet collected in that particular year. In 2016, the arrears of revenue have been increased from **\$676,253.98 (2016)** to **\$27,693,126 (2017)**, of which incurring a rise in the value of **\$27,016,872.02**. The increase in value noted in 2017 of **\$27,016,872.02** shows that Ministries are failed to collect revenue during the year. The bulk of the outstanding revenue derived from MELAD and MFED with total outstanding revenue of \$1.6m and \$25.7m respectively.

Although, the balance of arrears of revenue had been fluctuating over the past years and in the 2017 was stir up to 27.6m the audit is of the belief that the balances reported every year did not give a true picture of the whole government arrears of revenue due to the following issues noted:

- As could be observed only three Ministries/Offices that submitted their outstanding dues to MFED summed to \$27.6m (page 33 to 34 refers 2017 Annual account). The remaining Ministries/Offices had not submitted their list of arrears of revenue to be included in MFED records.
- The accumulative balance of outstanding dues prior 2011 of over \$20m, the amount of which was not realistic and irrecoverable given the proposal to be written off once approval is considered by Parliament.
- The arrears of revenue **\$19,939** for MLPID disclosed in 2017 Annual account need to be corrected to \$19,938 with a total revenue arrears \$27,693,786 instead of \$27,693,787(Refer page 33 to 34 2017 Annual account). The amount was not material but should pair in mind that all figures must be posted accurately.
- The arrears as noted by year for some Ministries would be altered once a revision has been made in the most recent year to update their arrears database.
- This issue is one of the outstanding and repetitive issues from previous audit report until to date and noted that management has never worked toward improving this area.

Implications:

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

Recommendations:

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

Management response:

3.13) Statement XV – Development Fund as at 31/12/2017

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 31/12/2017.

It's clearly evident after observing the table provided below that the balance for the Development Fund had been escalating over the past four consecutive years (2014-2017). As noted and confirmed, the total amount receipts for 2017 was increased to \$84.7m. In fact, the total amounts of expenditure had rapidly rise to \$51m the result of which incurred a net balance of \$33.7m. Therefore, the balance of the development fund in 2017 would be \$72.7m when aggregating the closing balance reported in 2016 of over \$39m.

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

Table 13A: Development Fund Balances for year 2015 – 2017

Description	FY 2014	FY 2015	FY 2016	FY 2017
Development Fund Balance as 1st January	-11,392,047.36	-21,238,265.20	-25,931,831.54	-39,047,878.43
Add:				
Revenue (All N)	-35,784,375.47	-52,212,972.20	-57,495,227.86	-84,789,142.72
Deduct:				
Expenditure (All H)	25,938,157.63	47,519,405.86	44,379,180.97	\$ 51,086,091.15
Development Fund Balance at year End	-\$21,238,265.20	-25,931,831.54	-39,047,878.43	-72,750,930.00

The audit noted that the amount of \$1,443,887.80 is the amount of project fund received as others. This made up total monies that the Ministry of Finance has not managed to identify the proper donor or project name. (refer to 2.4 Development project revenue by donor page 7 and statement XV Balance on Development Fund by Donor page 36)

Management response:

3.13.3 Un-authorised spending of \$224,669.35

Table 13B: Un-authorised expenditure of some Donors funds

Title/Name Project Donor	2.4: Development REVENUE	2.4 Development Expenditure	Variance	Statement XV REVENUE	Statement XV Expenditure	variance
UNICEF	\$ 586,577.58	\$ 610,228.36	\$ (23,650.78)	\$ 586,577.58	\$ 610,228.36	\$ (23,650.78)
UNDP	\$ 272,261.79	\$ 539,419.37	\$ (267,157.58)	\$ 272,261.79	\$ 539,419.37	\$ (267,157.58)
SPC	\$ 150,017.45	\$ 169,497.52	\$ (19,480.07)	\$ 150,017.45	\$ 169,497.52	\$ (19,480.07)
UN WOMEN	\$ 124,850.00	\$ 182,316.79	\$ (57,466.79)	\$ 124,850.00	\$ 182,316.79	\$ (57,466.79)
WHO	\$ 60,829.00	\$ 137,209.36	\$ (76,380.36)	\$ 60,829.00	\$ 137,209.36	\$ (76,380.36)
FRED HOLLOWS NZ FOUNDATION	\$ 48,534.80	\$ 53,693.92	\$ (5,159.12)	\$ 48,534.80	\$ 53,693.92	\$ (5,159.12)
SPREP	\$ 21,460.47	\$ 42,405.04	\$ (20,944.57)	\$ 21,460.47	\$ 42,405.04	\$ (20,944.57)
ACIAR & SPC	\$ 19,854.00	\$ 47,106.36	\$ (27,252.36)	\$ 19,854.00	\$ 47,106.36	\$ (27,252.36)
UNEP	\$ 6,321.26	\$ 118,171.97	\$ (111,850.71)	\$ 6,321.26	\$ 118,171.97	\$ (111,850.71)
UNIVERSITY OF WOLLONGONG	\$ 4,985.00	\$ 14,331.28	\$ (9,346.28)	\$ 4,985.00	\$ 14,331.28	\$ (9,346.28)
UNFP	\$ 6,321.26	\$ 118,171.97	\$ (111,850.71)	\$ 6,321.26	\$ 118,171.97	\$ (111,850.71)
TOTAL	\$ 1,302,012.61	\$ 2,032,551.94	\$ (730,539.33)	\$ 1,302,012.61	\$ 2,032,551.94	\$ (730,539.33)

(Source: 2017 Annual Account)

- The above table displayed the excess spending of some Donor funds contributed to the government to finance development funds. As noted the total excess spending incurred in 2017 was \$730k which fall far off-drop the total overspending of 2.1m experienced in 2016.
- Moreover, the audit noted that the net saving reported a balance of \$838m (refer 2017 Annual Account page 50) was not the actual saving hence there were some errors detected and had noted in 3.13.5. And these errors would be reflected to the decreases in a net saving of \$838k to 6.3m (2016: \$7,075,327.23-\$838,339.16k 2017). Therefore, it is important to note that these errors signified the variances noted over the incurred expenditure via revised warrant as per statement XV and reflected in 3.13.5 for the audit findings.

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- Further, this is a repetitive issue detected for the 2015 and 2016 Annual account and then reported also in the last annual account 2017 audit, the audit inquiry detected that some donors have no receipts (revenue) amounts reflected in the receipts column but only payments (expenditure) costs appearing thus raises concerns on the accurateness of the data provided. Therefore, management comment and correct advice is sought to settle this anomaly.

Local and Overseas Donor	2.4: Development REVENUE	2.4 Development Expenditure	Variance	Statement XV REVENUE	Statement XV Expenditure	Variance
ACIA	\$ -	\$ 25,847.55	\$ (25,847.55)	\$ -	\$ 25,847.55	\$ (25,847.55)
CLGE	\$ -	\$ 1,410,210.00	\$ (1,410,210.00)	\$ -	\$ 1,410,210.00	\$ (1,410,210.00)
COMMONWEALTH SECRETARIAT	\$ -	\$ -	\$ -	\$ -	\$ 3,360.76	\$ (3,360.76)
Eu AND UNICEF	\$ -	\$ 35,198.75	\$ (35,198.75)	\$ -	\$ 35,198.75	\$ (35,198.75)
FAO	\$ -	\$ -	\$ -	\$ -	\$ 60.00	\$ (60.00)
FFA	\$ -	\$ 195,601.61	\$ (195,601.61)	\$ -	\$ 195,601.61	\$ (195,601.61)
FISHINF COMPANIES	\$ -	\$ 241,764.55	\$ (241,764.55)	\$ -	\$ 241,764.55	\$ (241,764.55)
GREANPEACE	\$ -	\$ 6,774.39	\$ (6,774.39)	\$ -	\$ 6,774.39	\$ (6,774.39)
INDIA	\$ -	\$ 698,503.15	\$ (698,503.15)	\$ -	\$ 698,503.15	\$ (698,503.15)
JAPANESE TRUST FUND	\$ -	\$ -	\$ -	\$ -	\$ 4,641.39	\$ (4,641.39)
KOREA	\$ -	\$ -	\$ -	\$ -	\$ 50.65	\$ (50.65)
NZ AND EU	\$ -	\$ 49,399.76	\$ (49,399.76)	\$ -	\$ 49,399.76	\$ (49,399.76)
OCT	\$ -	\$ 9,988.34	\$ (9,988.34)	\$ -	\$ 9,988.34	\$ (9,988.34)
PIPA TRUST	\$ -	\$ 32,127.00	\$ (32,127.00)	\$ -	\$ 32,127.00	\$ (32,127.00)
PJDP	\$ -	\$ -	\$ -	\$ -	\$ 583.20	\$ (583.20)
RAMINCAH	\$ -	\$ 9,746.25	\$ (9,746.25)	\$ -	\$ 9,746.25	\$ (9,746.25)
TURKEY	\$ -	\$ 17,522.88	\$ (17,522.88)	\$ -	\$ 17,522.88	\$ (17,522.88)
UN	\$ -	\$ -	\$ -	\$ -	\$ 1,016.45	\$ (1,016.45)
UNESCO	\$ -	\$ -	\$ -	\$ -	\$ 2,693.61	\$ (2,693.61)
US GEOLOGICAL CENTRE	\$ -	\$ -	\$ -	\$ -	\$ 534.00	\$ (534.00)
UNESCAP	\$ -	\$ 50,991.84	\$ (50,991.84)	\$ -	\$ 50,991.84	\$ (50,991.84)
TOTAL	\$ -	\$ 2,783,676.07	\$ (2,783,676.07)	\$ -	\$ 2,796,616.13	\$ (2,796,616.13)

3.13.4 Over payment of \$412k and \$4.8m needed to be considered (Expenditure against Approved/Revised Warrant)

As part of the audit testing procedure, the audit had selected only fifteen projects as per list below to perform its audit test mainly on their existence and accurateness of Receipts and the Approved Warrant from Planning Office. However, as confirmed the actual expenditure had exceeded the revised warrant by giving a variance of over 4.8m.

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

GL Code	Titles/Names	TRIAL BALANCE 2017	Revenue/Receipts (A)	Original Warrant Per Annual Account (STMST XV) (B)	Rev. Wararant Planning Unit C	Expenditure D	MFED Figure Balance C-D(1)	Audit figure Balance C-D (2)	Variances (C-D(1))-(C-D(2))
N0901H002	UNESCAP Pacific Climate Change Migration Proj.	\$ -	\$ -	\$ 37,909.61	\$ 37,909.61	\$ 40,147.50	\$ (2,237.89)	\$ (2,237.89)	\$ -
2404H054	Air Kiribati Dash	\$ -	\$ -	\$ 5,700,000.00	\$ 5,700,000.00	\$ 1,700,000.00	\$ 4,000,000.00	\$ 4,000,000.00	\$ -
N2203H042170	Motorcycle for TB and Leprosy	\$ 45,875.71	\$ 45,875.71	\$ 45,875.71	\$ 45,875.71	\$ 49,612.50	\$ (3,736.79)	\$ (3,736.79)	\$ -
N2203H091185	Updgrading to office space eye clinic	\$ 19,000.00	\$ 19,000.00	\$ 19,000.00	\$ 19,000.00	\$ 13,838.99	\$ 5,161.01	\$ 5,161.01	\$ -
N2204C056160	Medical Overseas referral	\$ 1,773,335.00	\$ 1,773,335.00	\$ 147,778.00	\$ 4,049,330.00	\$ 3,688,711.62	\$ 3,540,933.62	\$ 360,618.38	\$ (3,180,315.24)
N2900SC038	Kiribati Power Supply	\$ 1,000,080,000.00	\$ 1,000,080,000.00	\$ 170,660.00	\$ 1,232,274.23	\$ 1,144,906.99	\$ (974,246.99)	\$ 87,367.24	\$ (886,879.75)
N23109154160	USP Contribution	\$ 729,984.00	\$ 729,984.00	\$ 729,984.00	\$ 729,984.00	\$ 1,123,734.82	\$ (393,750.82)	\$ (393,750.82)	\$ -
N2601814316	Te Runga 2017	\$ 303,645.00	\$ 303,645.00	\$ 693,645.00	\$ 693,645.00	\$ 706,327.65	\$ (12,682.65)	\$ (12,682.65)	\$ 0.00
N2401435216	International Air Service	\$ 3,080,000.00	\$ 3,080,000.00	\$ 3,080,000.00	\$ 3,080,000.00	\$ 2,349,808.88	\$ 730,191.12	\$ 730,191.12	\$ -
N2701G115	Support to the Nippon Causeway	\$ 246,167.00	\$ 246,167.00	\$ 246,167.00	\$ 330,392.00	\$ 29,408.82	\$ 216,758.18	\$ 300,983.18	\$ (84,225.00)
N09012262173	Disater Fund Betio Hospital	\$ 2,755,250.00	\$ 2,755,250.00	\$ 1,708,145.29	\$ 2,419,724.29	\$ 2,122,735.97	\$ (414,590.68)	\$ 296,988.32	\$ (711,579.00)
N01502H028173	Onotoa Council Of Maneaba	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ -	\$ 43,809.52	\$ 43,809.52	\$ -
N01502H026173	TAB NORTH NEW OFFICE	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ -	\$ 43,809.52	\$ 43,809.52	\$ -
N1502H025173	upgrading of Council Maneaba_Nonouti i	\$ 131,428.56	\$ 131,428.56	\$ 43,809.52	\$ 43,809.52	\$ -	\$ 43,809.52	\$ 43,809.52	\$ -
N1502H022	Upgrading of Council Maneaba_Kuria	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ 43,809.52	\$ -	\$ 43,809.52	\$ 43,809.52	\$ -
Total		\$ 1,009,296,113.83	\$ 1,009,296,383.83	\$ 12,754,402.69	\$ 18,513,372.92	\$ 12,969,233.74	\$ 6,867,036.19	\$ 5,544,139.18	\$ (4,862,998.99)
				Σ of overpayment Balance C-D (2):				\$ (412,408.15)	
				Σ of unutilized warrant (2):				\$ 175,238.08	
				Σ of Balance C-D (2)_ Correct figure				\$ 5,544,139.18	
				Σ of variances figures indicate the total amount that need to be considered				\$ (4,862,998.99)	

After performing the analytical review of the above table, the audit noted the anomalies for management response as followed:

- The overpayment of \$412,408.15
- The aggregate variance of \$4,862,998.99
- The unutilised of project warrant of \$175,238.08
- The nil balances for trial balance and revenue receipts.
- The total receipts did not agree against total approved/revised warrant whilst the receipted figure as per above was totally agreed to trial balance.

Implication:

- The overpayment signified the improper payment due with an exhausted warrant balance to meet such payment.
- The variances had signified the failure for management in reviewing the system and the figures posted
- The unutilised of project fund would signify that the project was no longer existed or had been aborted.

Recommendation:

- Management must ensure that the systems are put in place for control purposes and all approved projects which have funds available must be carried out economically, effectively and efficiently.

Management response:

3.14) Statement XVI – Government of Kiribati Suspense Account as at 31/12/2017

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 2016 to 2017 respectively.

Findings and Analysis:

As part of our testing in related to the new format for suspense account we would prefer to work toward the notes provided and cross referencing the items account as per detailed via the notes that noted into suspense account (refer to Annual Account page 51) and trial balance for 2017 as follows:

Table 1: Statement XVI 2017_Audit Pretesting

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Statement XVI: STATEMENT ON BALANCE OF SUSPENSE ACCOUNT AS AT DECEMBER 2017				AUDIT TESTING						
Account code				NOTES			TRIAL BALANCE			
				NOTE NO.	Figure	Varinaces 1	FIGURES	BALANCE	VARIANCE 2	
Other advances & standing	ACCOUNT DETAILS	2017	Balance							REMARKS
OTHER FUNDS										
F007000062A	stabedix fund	\$ -58,351.55		V	\$ -	\$ -	\$ -			not stated in trial balance
F007000066A	leper trust fund	\$ -8,961.27	\$ (68,312.82)		\$ -	\$ -	\$ -	\$ -	\$ (68,312.82)	not stated in trial balance
OTHER ADVANCE										
J0044001024A	Banaba RCL	\$ 43,067.79	\$ 43,067.79	VII_J0044	\$ 769,149.59	\$ -726,081.80	\$ -	\$ -	\$ 43,067.79	not stated in trial balance
J0046001911A	standing imprest-Tatoo Teiwaki	\$ -400.00			\$ -	\$ -400.00	\$ -	\$ -	\$ -400.00	not recorded in the statement(XVI)
J0046004721A	standing imprest-Taniera Kataua	\$ 500.00			\$ -	\$ 500.00	\$ -	\$ -	\$ 500.00	same above
J0046006054A	standing imprest-Taveni Temari	\$ 6,000.00			\$ -	\$ 6,000.00	\$ -	\$ -	\$ 6,000.00	not stated in trial balance
J0046006381A	standing imprest-Baitere Aiaimoa	\$ 400.00			\$ -	\$ 400.00	\$ -	\$ -	\$ 400.00	same above
J0046007551A	standing imprest-Taarai Kiatoo	\$ -987.43			\$ -	\$ -987.43	\$ -	\$ -	\$ -987.43	same above
J0046007770A	standing imprest-Tibou Ioteba	\$ 1,483.85			\$ -	\$ 1,483.85	\$ -	\$ -	\$ 1,483.85	same above
J0046007777A	staning imprest-Okoro luka	\$ 1,600.00			\$ -	\$ 1,600.00	\$ -	\$ -	\$ 1,600.00	same above
J004600789A	standing imprest-Iakobwa	\$ 800.00			\$ -	\$ 800.00	\$ -	\$ -	\$ 800.00	same above
J0046093101A	standing imprest-Taataa Tata	\$ 6,500.00	\$ 15,896.42	VII_J0046	\$ 1,457.91	\$ 5,042.09	\$ -	\$ -	\$ 6,500.00	same above
J0044001025A	Unaccounted DR & CR & Diff..	\$ -			\$ -		\$ 769,149.61	\$ -	\$ -769,149.61	same above
J0044226592A	Eritita Betero	\$ -			\$ -		\$ -0.02	\$ -	\$ 0.02	same above
J0046007538A	Tabua Kalekieki	\$ -			\$ -		\$ 400.00	\$ -	\$ -400.00	not recorded in the staement(XVI)
J0046007705A	Willie Tekanene - Postmaster	\$ -			\$ -		\$ 676.03	\$ -	\$ -676.03	same above
J0046007766A	Tiotibin Matiota - Postmaster	\$ -	\$ -		\$ -	\$ -	\$ 381.88	\$ -	\$ -381.88	same above
CASH WITH AGENTS										
M0034000500A	Crown agents main account	\$ 12,125.98		VII&XVIII	\$ -	\$ -	\$ -	\$ -	\$ -	not stated in trial balance
M0034000501A	Crown agents EDF account	\$ 242.11			\$ -	\$ -	\$ -	\$ -	\$ -	same above
M0034000502A	Crown agents US dollar	\$ -1.24			\$ -	\$ -	\$ -	\$ -	\$ -	same above
M0034000506A	Morris Hedstrom	\$ 5,631.71			\$ -	\$ -	\$ -	\$ -	\$ -	same above
M0034000507A	NZ medical treatment	\$ 18,972.00	\$ 36,970.56		\$ -	\$ 36,970.56	\$ -	\$ -	\$ -	same above
SUNDRY DEPOSITS										
O005006002A	Bangao court order	\$ 632.30		VIII			\$ -		\$ -	not stated in trial balance
O005006015A	constabulary reward	\$ -413.50		VIII			\$ -		\$ (413.50)	same above
O005006067A	Private works PWD	\$ -74,548.85		VIII			\$ -		\$ (74,548.85)	same above
O005006101A	Motirere Tetuui	\$ 50.00		VIII			\$ -		\$ 50.00	same above
O005006114A	Forum fisheries	\$ -40.95		VIII			\$ -		\$ (40.95)	same above
O005006116A	ODA advance	\$ 259.35		VIII			\$ -		\$ 259.35	same above
O005006325A	small industry project	\$ -24,786.86		VIII			\$ -		\$ (24,786.86)	same above
O005006334A	unidentified credits	\$ -5,214,200.27		VIII			\$ -6,923,595.84		\$ 1,709,395.57	
NO. CODE	misallocation be adjusted in 2018	\$ 10.00	(5,313,039.78)	VIII	\$ 1,069,613.17	\$ (4,243,426.61)			\$ 10.00	no code captured in attache system

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O005000010A	Trade Creditors Local	\$ -				\$ -1,607.66	\$ 1,607.66	not recorded in the staement(XVIII)
O005000100A	Kir High Com KPF acc	\$ -				\$ 14,824.47	\$ (14,824.47)	same above
O0050001001A	Kir High Com Insurance	\$ -				\$ 645.04	\$ (645.04)	same above
O0050001002A	KHC maintenance (Cakacaka)	\$ -				\$ 1,635.36	\$ (1,635.36)	same above
O0050006000A	KHC Rent	\$ -				\$ 266,484.56	\$ (266,484.56)	same above
O0050006001A	Service Charge	\$ -				\$ -8,717.06	\$ 8,717.06	same above
O0050006003A	Telmo Salaries	\$ -				\$ 576.24	\$ (576.24)	same above
O0050006004A	Bank Salaries	\$ -				\$ 2,587,293.96	\$ (2,587,293.96)	same above
O0050006005A	KPF loan	\$ -				\$ -2,180,529.60	\$ 2,180,529.60	same above
O0050006006A	Kiribati Insurance Corporation	\$ -				\$ -112,958.69	\$ 112,958.69	same above
O0050006007A	Development Bank	\$ -				\$ 732,578.15	\$ (732,578.15)	same above
O0050006008A	Housing Loans	\$ -				\$ -153,963.84	\$ 153,963.84	same above
O0050006010A	Chief Registrar	\$ -				\$ 17,649.09	\$ (17,649.09)	same above
O0050006012A	Linnix Service Charge	\$ -				\$ -14,557.40	\$ 14,557.40	same above
O0050006013A	Sundry Deposit for NY mission	\$ -				\$ -61,212.42	\$ 61,212.42	same above
O0050006014A	KPF clearing	\$ -				\$ -336,647.46	\$ 336,647.46	same above
O0050006020A	Commerzbank AG Krefel	\$ -				\$ -3,491.38	\$ 3,491.38	same above
O0050006024A	Prison Fund	\$ -				\$ -33.40	\$ 33.40	same above
O0050006040A	Security Bond Immigration	\$ -				\$ -103,258.69	\$ 103,258.69	same above
O0050006110A	Bik Sail Loft A/c	\$ -				\$ 9,327.26	\$ (9,327.26)	same above
O0050006113A	BOK Savings Accounts	\$ -				\$ -276,965.09	\$ 276,965.09	same above
O0050006115A	Contribution to KPF	\$ -				\$ 1,910,666.91	\$ (1,910,666.91)	same above
O0050006117A	Bank Agency arrangement					\$ 5,358,216.19	\$ (5,358,216.19)	same above
O0050006119A	FDA Loans	\$ -				\$ 1,392,404.20	\$ (1,392,404.20)	same above
O0050006140A	Telecom training Costs	\$ -				\$ 0.20	\$ (0.20)	same above
O0050006150A	Police Fund	\$ -				\$ 5,550.11	\$ (5,550.11)	same above
O0050006321A	Judiciary - Deposit (KSSL/BSL)	\$ -				\$ 40.00	\$ (40.00)	same above
O0050006328A	DOJ Trust Fund	\$ -				\$ 46,259.43	\$ (46,259.43)	same above
O0050006329A	BKL Deposit On Outer Islands	\$ -				\$ -1,271,310.94	\$ 1,271,310.94	same above
O0050006330A	Prior periods Unclaimed Chqs	\$ -				\$ -709,322.88	\$ 709,322.88	same above
O0050006335A	No.1 PPI unreconcile balance	\$ -				\$ 1,025.70	\$ (1,025.70)	same above
O0050006338A	Outer Island other deposit	\$ -				\$ 143,690.52	\$ (143,690.52)	same above
O0050006339A	No 5 unidentified Credit	\$ -				\$ -13,525.41	\$ 13,525.41	same above
O0050006340A	No.5 PPI unreconciled balance	\$ -				\$ 2,341,042.05	\$ (2,341,042.05)	same above
O0050007186A	Uncollected Telmos	\$ -				\$ -13,503.80	\$ 13,503.80	same above
O0050007187A	Overpayment Claims	\$ -				\$ -218,180.00	\$ 218,180.00	same above
O0050007790A	BPC Banaba - Perpetual Depos	\$ -				\$ -7,756.93	\$ 7,756.93	same above
O0050007792A	Deed of Release 2007-08 MPLID	\$ -				\$ -199,161.61	\$ 199,161.61	same above
O0050009988A	Contra Bank Statements	\$ -				\$ -112,975.17	\$ 112,975.17	same above
O0050009999A	Bank Charges Salary Deduction	\$ -				\$ -21,940.55	\$ 21,940.55	same above
O0050201401A	Recurrent uncollected PVs	\$ -				\$ -549,832.99	\$ 549,832.99	same above
O0050201402A	No.4 uncollected PVs	\$ -				\$ -467,804.21	\$ 467,804.21	same above
O0050201701A	Overpayment to suppliers	\$ -				\$ 2,556.75	\$ (2,556.75)	same above
O5000000010A	Funds deposited into Missions	\$ -				\$ -58,192.44	\$ 8,153,196.57	same above

After performing the analytical review and a pre-test of the suspense account the audit noted the anomalies for management response as follows:

- The account figures disclosed in the suspense account was a prior year annual account record (2016 and not 2017) and noted not agree to:
 - i. the notes provided and
 - ii. Trial balance 2017
- The incomplete of suspense account when it brought to notice that there were outstanding transactions from the trial balance for 2017 had never yet posted into such account.

Additionally, the Senior Accountant was agreeing to the audit findings during the discussion and she noted that there might be have an error that needed to be considered.

Recommendation:

- Management should ensure that all transactions posted in the suspense accounts are disclosed in related for notes provided and trial balance

Management response:

3.15 Statement XVII: Unauthorised Expenditure by Ministries as at 31/12/2017

Findings and Analysis:

Code	Ministry Name	Original Budget	Revised Budget	Actual Expenditure	Ministry Figure Under/(Over)	Audit Figure Under/(Over)	VARIANCE
13	Public Service Commission	\$ 260,984.00	\$ 275,984.00	\$ 283,556.00	\$ (7,572.00)	\$ (7,572.00)	\$ -
17	Maneaba NI Maungatabu	\$ 3,259,356.00	\$ 3,259,356.00	\$ 3,355,933.00	\$ (96,577.00)	\$ (96,577.00)	\$ -
	Ministry of Justice	\$ 2,579,491.00	\$ 2,606,491.00	\$ 2,748,292.00	\$ (134,691.00)	\$ (141,801.00)	\$ 7,110.00
TOTAL		\$ 6,099,831.00	\$ 6,141,831.00	\$ 6,387,781.00	\$ (238,840.00)	\$ (245,950.00)	\$ 7,110.00

The level of unauthorised expenditure had dropped to \$245k from \$1.5m (2016: \$46,800,622.00-\$48,321,349.86 to 3.7m and 2017: \$6,141,831.00-\$6,387,781.00 to \$245k). AS noted above, there were three Ministries still operated above approved budget. The bulk of unauthorised expenditure was derived from PSC \$7k, Maneaba ni Maungatabu \$96k and MOJ \$134k.

However, the audit discovered the discrepancy figure of \$7,111 and noted for management response for such anomaly in related to the audit findings as indicated in the table above for MOJ as follows:

- Statement III & IV Comparative Statement of recurrent Expenditure and Revenue Against Estimate by Sub-Head and in Statement XVII Unauthorised Expenditure by Ministries was \$134,690.50 whilst the audit figure was \$141,801 which had simply indicated the variance of \$7,110.
- MOJ 2.4 Statement XVII did not match and agree to 2.4 unauthorised spending as identified in the table below:

Description	Original Budget	Revised Budget	Actual Expenditure
2.4 Unauthorised Spending By Ministries	\$ 2,579,491.00	\$ 2,613,601.00	\$ 2,747,286.98
Statement XVII: Unauthorised Expenditure By Ministry	\$ 2,579,491.00	\$ 2,606,491.00	\$ 2,748,292.00
under/(over)	\$ -	\$ (7,110.00)	\$ 1,005.02

Note: The above table is also the same table appearing under Statement III & IV: Expenditure – Unauthorised spending by Ministries (ref: Annual Account page 7) Statement XVII (Annual Account page 52).

The level of unauthorized expenditure had dropped to \$670k from \$237km (i.e.\$45,650,929-46,558,843.42) to \$1.5m (i.e. 2017(\$6,148,941-\$6,386,775.80). As noted above, some Ministries still operated above approved budget. The bulk of unauthorized expenditure was derived from \$230k, MM \$96.5k and MOJ \$133.6k. Next is the PSC with an overspent of \$7k.

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

Note: The above table is also the same table appearing under Statement II: Expenditure – Unauthorised spending by Ministries (ref: Annual Account 2017 on page18 description details).

Management response:

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

Findings and Analysis:

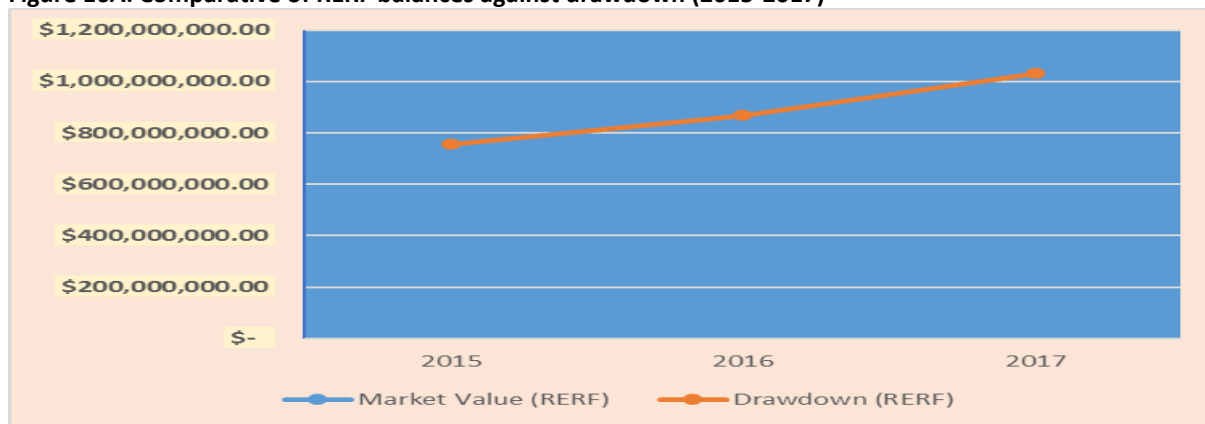
3.16.1 Background of the Fund

The fund was established in 1956 and capitalized using phosphate mining royalties. Under a conservative policy, the fund's asset grew steadily until 1979 when phosphate deposits were exhausted. Until recently, conservative policies have been protected the RERF. Since independence Governments have generally been reluctant to draw on the RERF, preferring to accumulate funds against an uncertain future.

3.16.2 RERF Analysis – Market Value & Drawdown Summary (2015-17)**Table 16A: Summary of Market Value & Drawdown for 2015 – 2017**

Year	Market Value (RERF)	Drawdown (RERF)
2015	\$ 756,259,202.00	\$ -
2016	\$ 868,095,699.00	\$ -
2017	\$ 942,469,310.37	\$ -

(Source: Investment Unit, NEPO, MFED)

Figure 16A: Comparative of RERF balances against drawdown (2015-2017)

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 2015 up to 2017. It is pleasing to note from the above analysis that the RERF had kept ascending over the past three years. As evidenced the total amount of RERF had been increased from **2016 (\$868,095,699.00) to 2017 (\$942,469,310.37)** constituting an increase in value of RERF by \$74M. However, there is a decreased in the value of \$74m in 2017 not exceeded the progress in the value noted in 2016 of \$111m. Overall, the decrease of \$37m (2016 \$111m-2017 \$74m). However, the causes of this drop was resulted from the transition and the changed of State Street to cash trust from V00_203A to M003_024A) by the amount of \$57m plus 2017 contribution of \$30m. If there is no transition and changed to State street the RERF market value with a contribution of 30m the RERF for 2017 would be \$1.0 billion.

Further, it is also pleasing to note that 2017 is the third year of record the Government had not made any withdrawal from the RERF unlike preceding past years when the Government entertained withdrawals from the RERF in the amounts of \$18.37k for 2014, and \$9.62m for 2013 respectively.

3.16.3 The differences Noted for Statement X Via Statement XIX – Northern Trust and Black lock for the year ended 31/12/2017

The audit noted the differences in a closing market value as per annual account for end of 2017 between Statement X: Investment via Statement XIX for Northern Trust and Black Rock as follows:

RERF	Statement X INVESTMENT	Statement XIX RERF	Variance
Northern trust	\$ 443,443,353.31	\$ 443,446,308.41	\$ (2,955.10)
Black Rock	\$ 499,023,002.01	\$ 499,023,001.78	\$ 0.23

After performing the analytical review, the audit noted the anomalies for management response as follows:

- Statement X: The amount of \$443,443,353.31 for Northern trust was understated by \$2,955.10.
- Statement XIX: Net Income of \$13,440,451.40 was understated by \$210.35. This understatement is an omitted bank charges form statement xix. (refer to NEPO trial balance for Northern trust).

Implication:

- If the transactions in Statement X and XIX were not matched there must be an error in the system or the error would be signified the inadequate records of transactions and figures disclosed in the Annual account 2017 and
- This error would signify the inadequate report for both statement as per Annual Account.

Recommendation:

- Management must ensure to review the variance noted and provide satisfactory response regarding the causes of such differences or to adjust their figures accordingly.

Management response:

3.16.4 Total Income – Northern Trust and Black lock 31/12/17

The total income disclosed in the annual account 2017 for Northern Trust \$14m and Black Lock \$28m respectively, to which when aggregating together the total income at year end 2017 reached the amount of **\$41m**. As witnessed from last year audit report the total income for year-end was **\$51m** whereas **\$41m** was noted as the total income for 2017, hence a gradually decrease by \$10m from 2017 level was realised. The audit noted a drop in total income by \$9m for 2017 (2016: 83m-42m 2017), \$15m decreased was resulted when State Street \$57.8m was reallocated from RERF to Cash Trust and the loss of \$18k for HSBS charged under Net Loss on Unrealised.

However, the decreased was due to the reallocation of State Street \$57.8m to Cash Trust and the investment with HSBS by \$18k when it was off from RERF record and charged under Net Loss on Unrealised to clear off this inactive funds. Whilst the investment with HSBS was noted as gain lost under Net Loss on Unrealized by \$18,478. However, management requested to response and give a brief statement regarding of the investment with HSBS \$18,478 as per account Statement XIX when it noted that the remaining balance of \$18k was charged under Net Loss on Unrealised a/c without proper note for HSBC.

3.16.5 Injections (Deposit) to the RERF 2016

The audit also detected under the year reviewed the classification by the Accounts Division the state street and the investment with HSBC are not part of the RERF due to the reallocation which reported it separately as an offshore cash trust account while HSBC was initially off record from RERF and noted as zero balance. In January 2017 there was a reallocation and contribution to state street RERF to cash trust of \$57.8m plus \$30m contribution for cash trust. It was further highlighted that there was no an internal cash transfer and contribution to the RERF for Northern Trust and Blackrock 2017.

In conclusion, assuming that the total market value of the RERF as at 31/12/2016 was \$925,565,507 less \$57,854,285.79 then the actual value of the RERF (as advised by NEPO) in 2017 is **\$942,469,310.37** indicating that **Northern trust and Blackrock are considered as the RERF**,

3.16.6 Management Fees for the year ended 31/12/2017

The expenses for the RERF were consisted of various fees such as: management fees, custodian fees, tax expenses and other fees. As noted the total expense incurred in 2017 of \$735.5k is the aggregate of **Northern trust \$647k**, and **Blackrock \$88.5k** an amount which above colossal excess expenditure reported 2016 of \$90k.

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

Implication:

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

Recommendations:

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

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

Management response:

4.1 Independence

We confirm that, for the audit of Government of Kiribati Annual account for the year ended 31st December 2017 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 GOVERNMENT OF KIRIBATI Annual account (MFED).

4.2 Unresolved disagreements

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

5 Appendix: Refer to appendices attached herewith as follows:

5.1 Appendix One: Public Fund Losses

Ministry of Finance & Economic Development

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

Ministry of Fisheries & Marine Resource Development

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

Ministry of Communication, Transport & Tourism Development

Year	Details		Remarks
1987	Bairiki Post office	2,758.09	Write off action requested
	Payment of telmo to unauthorized payee	600.00	Write off action requested
1988	Onotoa Post office- loss of cash	1,741.38	Write off action requested
	Serious irregularities in Shipyards Betio	1,420.00	Write off action requested
	Loss of Public funds Post office Makin	347.20	Write off action requested

	Cash shortage April 1988 account Washington	324.03	Write off action requested
1989	Telmo Discrepancies	9,936.75	Write off action requested
	Invalid stamp sales- Post Master	915.34	Write off action requested
1991	Improper use of Philatelic Funds	1,807.22	Write off action requested
1992	Loss of Public Fund KVP	733.35	Write off action requested
2005	Suspected fraud at Post office Betio	31,500	Requested for suspension on 50% pay set today. AG never receive the case
2005	Suspected fraud at Post Office Betio	7,584.90	\$4,500 has been repaid, remaining \$1,026.10 should be recovered from the person concerned
2005	Discrepancy on Abaokoro stamp Imprest	300.00	Further information be obtained from the responsible Ministry
2010	Alleged fraud at Bikenibeu Post office	7,419.10	
2014	Loss of Public funds at Post office Bairiki	3,724.91	Officers appointment terminated by PSC
2014	Loss of Public funds at Post office Betio	1,263.70	Officers appointment terminated by PSC
		72,375.97	

Ministry of Works & Utilities

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

Ministry of Labor & Human Resource Development

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

Judiciary

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

Kiribati Police & Prisons Services

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

		21,494.91	
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Ministry of Internal Affairs

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

Ministry of Health and Medical Services

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

Ministry of Education

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

Ministry of Environment, Land & Agriculture Development

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

Ministry of Line & Phoenix Group

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

Public Service of Commission

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

Office of Te Beretitenti

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

Date registered	file number	Details	Amount	Date Reported to Police	Comments
11-07-16	77/01/357	double payment of telmo#961625	\$ 8,000.00	24/11/16	officer resigned
16/11/16	„	shortage in revenue collection-MFED Revenue cashier	\$ 3,905.05	13/1/16	
25/11/16	77/01/358	shortageof cash at Hight court-Revenue cashier	\$ 5,328.60	„	
Total			\$17,233.65		

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

3. Annual Account Statements

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

GLcode	Description	Actual2016	Actual2015
Asset			
I	Telmos Paid	\$269,599,516.85	\$241,680,207.83
J	Other Advances	\$830,371.73	\$830,371.73
K	Sundry Advances	-\$235,175.13	-\$387,182.72
L	Imprest and Salary Advances	\$12,538,634.61	\$11,667,416.59
M	Bank Accounts & Cash	\$115,074,536.76	\$67,953,632.56
V	Investments	\$938,321,523.11	\$849,465,605.29
Z	Suspense Account	\$4,881,972.70	\$4,885,358.56
	Subtotal	\$1,341,011,380.63	\$1,176,095,409.84
Liability			
O	Sundry Deposit	-\$10,075,040.55	-\$5,116,969.56
P	Telmos Received	-\$258,394,174.02	-\$236,110,163.03
Q	Salary Allotments	-\$21,617.35	-\$21,517.35
S	Deceased Native Estate (DNE)	-\$1,253,402.14	-\$1,020,977.67
T	SAYE	-\$15,191.65	-\$12,901.65
X	Other BS items	\$0.00	\$0.00
	Subtotal	-\$269,759,425.71	-\$242,282,529.26
Net Asset		\$1,071,251,954.92	\$933,812,880.58
Attributed to:			
Consolidated			
E	Recurrent Expenditure	\$174,370,703.34	\$308,322,502.95
		\$174,370,703.34	\$308,322,502.95
Consolidated			
C	Recurrent Revenue	-\$209,258,754.56	-\$253,315,009.40
		-\$209,258,754.56	-\$253,315,009.40
	Net Recurrent Revenue	-\$34,888,051.22	\$55,007,493.55
Development Projects			
H	Expenditure	\$44,379,180.97	\$47,421,354.86
		\$44,379,180.97	\$47,421,354.86
Development Projects			
N	Revenue	-\$57,495,227.86	-\$52,212,972.20
	Net Development Fund	-\$13,116,046.89	-\$4,791,617.34
Funds			
F	Special Funds	-\$1,023,247,856.81	-\$984,028,756.81
	Total Equity	-\$1,071,251,954.92	-\$933,812,880.60

5.3 Appendix Three: Copy of Cap 79, Schedule 2

5.4 Appendix Four: Copy of Cap 79, Schedule 2

SCHEDULE 2
(Section 177)

RULES FOR THE OPERATION OF THE DEVELOPMENT FUND

1. In these Rules, "Fund" means the Development Fund.
2. (1) No moneys shall be raised from the Fund for the purpose of meeting any expenditure except in accordance with a warrant under the hand of the Minister authorising the Accountant General to raise those moneys.
- (2) Subject to the rules 4, 5, 6 and 7 no warrant shall be issued under paragraph (1) unless the expenditure in question has been authorised by the Members of Parliament by resolution in accordance with these Rules.
3. (1) The Minister shall cause to be prepared in each financial year estimates of the income and expenditure of the Fund for the next following financial year.
- (2) The proposals for all expenditures contained in the estimates shall be submitted to the Members of Parliament and a statement shall give the estimated balance of the Fund at the commencement of the financial year and the anticipated revenue necessary to meet the expenditure from the Fund during the financial year shall also be submitted to the Members of Parliament.
4. (1) If the Members of Parliament has not yet authorised for any financial year expenditure of sums necessary to finance the continued construction and provision of development works for which provision is made from the Fund in the previous financial year the Minister may by warrant authorise the issue from the Fund of such sums as are necessary to finance the continued construction and provision of such works in which such sums to be carried out for a period of 4 months or until the expenditure of sums necessary to finance the continued construction and provision of such works has been approved by the Members of Parliament whichever is the shorter period.
- (2) Notwithstanding paragraph (1) no sum may be issued under this rule in respect of any warrant where such sum would be in excess of 25 per cent of the estimate of the total cost for such warrant as it appears in the development estimates or supplementary development estimates approved by the Members of Parliament.
5. (1) When in any financial year the development estimates or supplementary development estimates for that year include an estimate of total cost for any warrant for any period which is in excess of the total sum authorised for that warrant by the Minister and by warrant authorise the expenditure of any sum which when added to the expenditure incurred in the year ending in the previous year and to the expenditure already authorised for the year ending in the current year, does not exceed the total estimate of total cost for that warrant included in the development estimates or supplementary development estimates approved by the Members of Parliament for that year.
- (2) When at the commencement of any financial year the provision included for any warrant in the development estimates or supplementary development estimates or the immediately preceding financial year has been only partially exhausted the Minister may by warrant authorise the expenditure of the unspent balance of such provision under a warrant subject to the current financial year.
- Provided that the amount so authorised shall not when added to the expenditure incurred in previous years and to the provision already made in the current year, exceed the total estimate of total cost for the warrant included in any development estimates or supplementary development estimates approved by the Members of Parliament.
6. (1) No warrant under this rule shall authorise the issue of an amount which if it were expended at once would exceed the balance of the Fund remaining after all other expenditure authorised for that year has been provided for.
2. The Minister may with the approval of the Cabinet by warrant authorise the issue from the Fund of such sums as may be necessary for expenditure under any warrant of a specified amount which is not provided for in the expenditure already authorised by the Members of Parliament for the year and which cannot be carried out without serious injury to the public interest be prejudicial and adequate provision not be made by the Members of Parliament.
- Provided that no such warrant shall authorise the issue of an amount which if it were expended at once would exceed the balance of the Fund remaining after all other expenditure authorised for that year has been provided for.
7. (1) The Minister may in any year by warrant authorise the issue from the Fund of such authorised sums as may be necessary for expenditure under any warrant which has been authorised by the Members of Parliament for that year and the issue of which cannot be carried out

5.4 Appendix Four: Overall Fund Performance – RERF

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

Source: Based on Investment Unit, NEPO, documents.

Overall Fund Performance

Revenue Equalization Reserve Fund (RERF)

Northern Trust

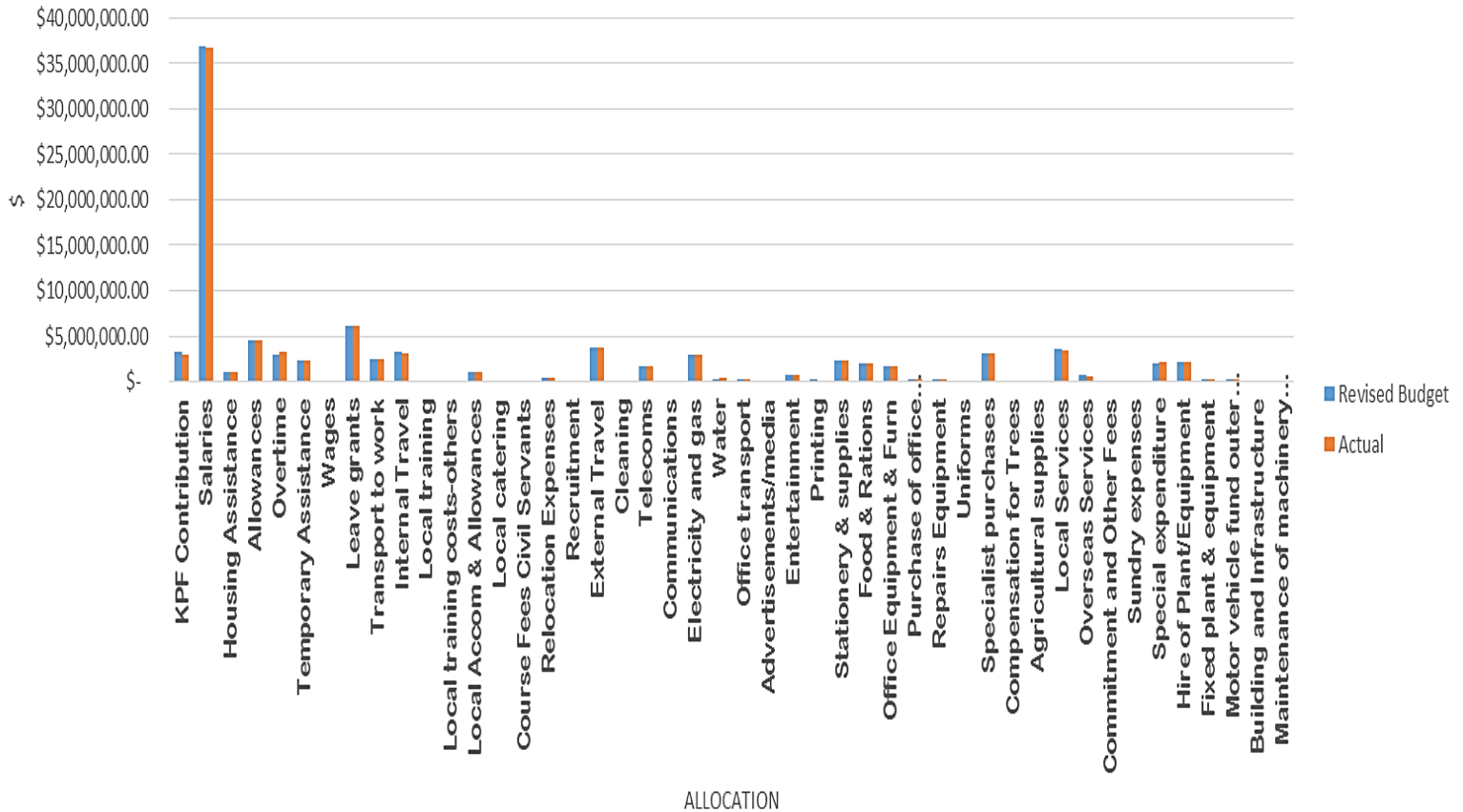
Kiribati's RERF overall balance was increased by \$88 million (or 10 percent) at 31st December 2016. This was resulted from the increase in the Northern Trust fund balance (previously Nikko the fund manager) by \$44million (12%) partially offset by the decrease in State street cash trust fund by \$22m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

Blackrock

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

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

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



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

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