



**AUDIT REPORT OF THE AUDITOR GENERAL
ON THE
GOVERNMENT ANNUAL FINANCIALS OF
REPUBLIC OF NAURU
FOR THE YEAR ENDED
30 JUNE 2015**

Reported by:

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AUDIT FINDINGS

I. Role of the Auditor General:

The principal duties and responsibilities of the Auditor General of the Republic of Nauru are set out in the Audit Act 1973, which came into force with effect from 8th November, 1973 and also under Article 97(1) of the Constitution of Nauru.

Under Section 6 of the Audit Act 1973, the Auditor General is required, on behalf of the Parliament, to examine, enquire into and audit the accounts of all accounting offices in Nauru and in the offices of the Republic outside Nauru and satisfy himself:-

- (a) that all reasonable precautions have been taken to safeguard the collection of public moneys and that the laws, directions or instructions relating thereto have been duly observed; and
- (b) That all money appropriated or otherwise disbursed has been expended and applied for the purpose or purposes for which the grants made by Parliament were intended to provide and that the expenditure conforms to the authority which governs it.

II. Background of History

The Government of Nauru, after a gap of 15 years had produced its Annual financials for the financial year 2013-14. The same was audited and presented to the Parliament on 30th May 2017. It was a huge achievement for the Ministry of Finance, the team led by the Minister for Finance, Hon.David Adeang M.P., Secretary for Finance, Mr.Martin Hunt, Deputy Secretary, Mr.George Plant and in particular the Chief Accountant, Mr Taufia Patalo to complete a set of government financial statements after a gap of 15 years.

It eradicated non-compliance of the Government's legislative requirement and brought improvement in the weak financial reporting framework and mechanism, which was persisting since 1998-99 till 2012-13. The Government seems to be committed to fulfil its statutory requirements and accordingly the Year 2014-15 Annual Financials were also produced and submitted to the Auditor General.

Despite the obvious fact that we were unable to obtain independent confirmation of opening balances as at 1st July 2013, it was agreed that all balances prior to 1st July 2013 had been brought into the books as a charge to Retained earnings, total net effect of which is disclosed in the statement of Assets and Liabilities of year 2013-14 Annual Financials. For the current year 2014-15, the closing balance of year 2013-14 has been taken as opening balance and the accounts are prepared accordingly.

Although I have identified significant ongoing issues in the results of my audit, there is significant improvement and the Government of the Republic of Nauru have been able to strengthen its public financial management system which will support the government to achieve its key objectives and priorities for its people.

III. Role of the Minister of Finance - Preparation of year statement of accounts:

The Ministry of Finance plays a crucial role in providing for the government of the Republic of Nauru financial planning, accounting, statistics services and robust enforcement and management of taxation and customs and excise regulations.

The accounts certified by the Minister for Finance (MOF) and transmitted to the Auditor General on 9th February 2016 under Section 10 of the Audit Act 1973 are annexed to this report and comprises of the following:

- Statement of Income & Expenditure
- Statement of Assets & Liabilities
- Statement of Changes in Equity
- Statement of Revenue v/s Budget
- Statement of Expenditure Vs Budget
- Statement of Accounting Policies
- Notes forming part of the Financial Statements – for the year ended 30th June 2015.

We do not express an opinion on the Financial Statements for the year ending 30th June 2015 of the Government of Nauru due to situations explained in Basis for Disclaimer Opinion.

IV. Basis for issuing an Audit Opinion

An audit opinion confirms that the figures reported in a set of financial statements reflect the transactions that have been processed by the entity and have been reported in accordance with a valid accounting framework. The range of possible reporting options for any particular account balance is quite wide and if the balance is not reported in accordance with a recognised framework, the results reported cannot be relied upon for decision-making purposes. As I stated previously above, the Department of Finance (DoF) is moving towards the IPSAS – Cash Basis reporting framework as an interim measure to an eventual move to the full accrual Public Sector Accounting Standard.

The figures presented in the financial statements are, in some places, based on accrual principles but are not in accordance with a recognised standard and I was not able to provide an audit opinion on these accounts, although the revenue and expenditure amounts for the various Ministries do reflect the amounts processed through the Department of Finance ledger for those Ministries.

In recent years the Department of Finance has continued to significantly improve its ability to process and aggregate transactions, and is to be congratulated on its achievements and encouraged to continue developing financial reporting at a national level.

I have conducted an audit of the statements and the transactions which comprise them, to identify those areas which require improvement to provide adequate internal control over the collection and expenditure of public monies. Until such times as the national government accounting system has robust internal controls, I am constrained from conducting tests on the account balances in the statements to verify their completeness and validity.

Actions being progressively taken by Department of Finance and the line Ministries to address the problems identified in this and in my earlier reports will increase the likelihood that I will be able to provide an unqualified opinion on future financial statements.

V. Audit Objectives and Scope

Given the limitations imposed on me with regard to the reporting framework adopted by Department of Finance in presenting its National Accounts, the objective of my audit was to provide an assurance on the existence, accuracy and completeness in recording transactions through the accounting cycles in the Department of Finance which cover revenue, bank accounts, imprest, payroll, procurement and expenditure.

My audit served two purposes – to check whether the internal controls over revenue, expenditure, assets and liabilities are working properly to ensure the transaction amounts are reliable, correctly classified and complete; and to check that the figures in the financial statements match the underlying ledgers in the accounts. My audit reviewed a sample of transactions from various line Ministries processed through the national accounting system as well as transactions initiated within Department of Finance itself.

I or External Auditors also audit all statutory bodies including State Owned Enterprises, and these audits are separately reported for presentation to the Parliament as part of their individual Annual Reports.

VI. Results of my audit

The audit focus was on the reliability of the figures presented in the national statements. As has been the case for some years now, which is why there has been a 15 year gap in producing national accounts by Department of Finance, the poor performance of the internal controls in all line Ministries, combined with the difficulty in locating supporting documentation and sufficient evidence, continues to render the National accounts financial statements too unreliable for me to be able to form an opinion on their veracity or accuracy. Therefore it was not possible for me to form an opinion on the 2015 Government Financial Statements. Following are further explanations of these significant matters supporting my opinion and presented to Department of

Finance. It is hoped that the matters highlighted will contribute towards more improved statements for the government in the future years.

If accounts and records were prepared and maintained properly and consistency throughout the year persisted, management would have information for better decision making and to direct the government towards achieving its national priorities. Furthermore the preparation of the financial statements would be easier resulting in financial statements that would be more materially correct, with greater likelihood of being able to be certified by me without a disclaimer opinion.

Financial Year ending 30th June 2015

1. STATEMENT OF INCOME AND EXPENDITURE (STATEMENT - A)

1.1. REVENUE & EXPENDITURE

BUDGET ESTIMATES:

- 1.1.1 The total budget estimates for the fiscal year ended 30th June 2015 provided a revenue receipt of \$115.30 million as against the estimated total expenditure of \$115.14 million, including General Budget Support of \$4.67 million. The amount of \$4.67 million General Budget Support has been provisioned against the anticipated Income from Taiwan grant and ADB budget support.
- 1.1.2 The Actual Revenue receipts had decreased to \$95.16 million (17.47% decrease), mainly due to short receipt of Income, than expected, from NRO, Visa Revenue, Custom duties, Civil aviation Income, Income from other SOEs and other miscellaneous revenues.
- 1.1.3 The actual General Budget Support revenue has also increased to \$7.33 million against the budgeted amount of \$4.66 million.
- 1.1.4 The actual expenditure for the year 2014-15 was \$102.06 million, leaving an approximate 11.36% decrease than the estimated provision.
- 1.1.5 Brief Details of the Income & Expenditure is given as under:

	Budgeted 14-15	Actual 14-15	Variation 14-15
Income	115,304,477	95,161,411	20,143,066
Expenditure (including public debt)	115,144,781	102,063,965	13,080,816
Surplus/Deficit	159,696	- 6,902,554	
Less: Gain/Loss on Donor fund operation		- 127,109	
Net Deficit for the year		- 7,029,663	

- 1.1.6 The total expenditure includes debt repayment of \$5.82 million.

Audit is of the opinion that debt should not be treated as an income or expenditure but should be treated as Liability/reduction in liability. The interest portion, if applicable, should only be treated as expenditure.

- 1.1.7 During the year the government contained all the departments' expenses with-in the budgetary limit except one department. Certain amounts were also spent over and above the appropriation bill through effecting inter-subhead transfers, which is applicable as per the Public Finance Control & Management Act 1997.

1.2 **DONOR FUND RECEIPT AND UTILIZATION (Note 5 to Accounts)**

- 1.2.1 There was a net shortfall of \$0.13 million on Donor funds operations during the year. The actual Donor fund received during the year was \$6.26 million whereas there was a total movement of \$6.38 million. The excess fund utilization has been consolidated with the net shortfall of income for the year amounting to \$7.03 million.

Details of Donor fund received and utilized during the year is tabulated as under:

DONOR FUND RECEIPT AND UTILIZATION			
(Note 5 to Accounts)			
DONOR	Total Receipt	Total Payments	Variation
Aus AID	3,951,127	4,229,477	- 278,350
Nauru GEF Small GRA		86	- 86
CIE	229,319	315,015	- 85,696
Development Fund	51,485	232,584	- 181,099
EU RON Treasury		8	- 8
EU Rep 5		42	- 42
Global Fund R7 HIV/AIDS		4,156	- 4,156
Japan NPGA		86	- 86
JICA		116,833	- 116,833
Nauru Disabled	7,881		7,881
NZAID	2,000,961	1,448,932	552,029
Pacific NCD Program	35	12,649	- 12,614
RON Australian Sports		24,460	- 24,460
RON SPC		60	- 60
RON UNCCD		86	- 86
WHO Global Fund		60	- 60
WHO	16,789	86	16,703
World Diabetes		86	- 86
Net Cash movement	6,257,597	6,384,706	- 127,109

- 1.2.2 The shortfall of \$.7.03 million has been transferred to the Retained earnings which increased the overall deficit of GON. The deficit as at 30th June 2014 was \$31.78 million. After adjusting the net short of \$.7.03 million, the overall deficit of GON has increased to \$.38.82 million as at 30th June 2015.
- 1.2.3 However, there is variation in some of the expenses line items mainly due to commitment level being rolled in to different reporting period at the yearend process. All efforts to reinstate the commitment level into the system went futile, hence, there is differences in some of the expenses line shown in the General Ledger compared to the figures presented in the annual financial statements.

1.3 **Budget and Actuals:**

- 1.3.1 The actual revenue receipts were less, compared to expenditure for the year 2014-15 as would be seen from the following table:-

<u>Particulars</u>	<u>Year 2014-15</u>		<u>Variation</u>
	<u>Estimated</u>	<u>Actual</u>	
Revenue, excluding receipts from loans	115,304,477	95,161,411	20,143,066
Expenditure	<u>115,144,781</u>	<u>102,063,965</u>	13,080,816
Surplus/Short	<u>159,696</u>	<u>-6,902,554</u>	

2. STATEMENT OF ASSETS AND LIABILITIES (STATEMENT 'B')

- 2.1.1 Under Section 10 (c) of the Audit Act 1973, a statement of the assets and liabilities of the Republic at the end of the financial year, the manner in which these assets are invested or held and the general heads in respect of which those liabilities are outstanding is required to be transmitted to the Auditor General within a period of three months after the end of each financial year by the Minister responsible for the Public accounts of the Republic, duly certified with such explanations and qualifications as he may think necessary.
- 2.1.2 The statement of Assets and Liabilities for the financial year 2014-15 along with the other Accounts of the Republic was sent to Audit on 09/12/2016. However, though the auditing started on 16/01/2017, due to delay in settling audit queries and also due to the delay in reinstating certain corrupted data into the system by the technical firm Techone, we could not complete the audit as planned. The statement contain details of all properties and assets owned by the Republic such as land, buildings, vehicles, equipment of all kinds in addition to cash and investments, and the liabilities in respect of expenditure incurred upon 30th June 2015. However, audit find that additions made during the year were not incorporated with the asset list. Also the total value of properties compared to the prior year, were decreased without depreciating any assets and or sale of assets or writing off any assets. It is non-compliance to International Accounting Standards (IAS 16) wherein it states that an asset should be removed from the balance sheet on disposal or when it is withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss on disposal is the difference between the proceeds and the carrying amount and should be recognised in the Income statement.
- 2.1.3 All the Assets and Liabilities of the Government as at 30th June 2015 are not included in the Statement of Assets and Liabilities of Treasury Fund which depicts only the cumulative cash balance in the Treasury fund, indicated under the head Cash, including the current receivables and liabilities. The Treasury fund has a negative balance of \$31.79 million as at 30th June 2014. During the current year there incurred a further shortfall of \$7.03 million which increased the Treasury's net liability to \$38.81 million as at 30th June 2015. This represents excess of current liabilities of the Government over the current assets as at 30th June 2015.
- 2.1.4 **The republic's net investment is not listed in the Annual Financials. Audit presumes that there could be investment by the Government in RONPHOS, Nauru Air Corporation, Nauru Corporation/Eigigu Holding Corporation and other SOEs which need to be listed in the Financial Statement. There could also be advance payments made to certain land owners towards properties taken on rent for office purposes as well as accommodation, both locally and overseas. Also Housing Loan provided to certain people is also not included in the Financial Statement as at 30.6.2015.**

2.2 OPENING BALANCE:

- 2.2.1 All opening balances as on 1st July 2014 of all assets and liabilities could not be verified due to system error. It will lead to misstatements that could materially affect the current period's financial statement. **Any misstatement in this balances and difference will affect the accuracy of the accounts for the year 2014-15.**

2.3 TRIAL BALANCE:

2.3.1 The Trial Balance for the year 2014-15 was not tallying due to rolling out the commitments level expenses from the system which could not be reinstated. **Any misstatement in this balances and difference will affect the accuracy of the accounts for the year 2014-15.**

2.4 CURRENT ASSETS – DEBTORS (Note 3):

2.4.1 There is no balance confirmation letters obtained from any of the debtors. No material could be found to authenticate the amount is due as at 30th June 2015 other than the ledger balance.

2.4.2 The receivables identified as 19.83 million as at 30th June 2015, as detailed below:

		FY 2014-15	FY 2013-14
1	Accountable allowance receivable	16,750	40,079
2	Housing Loan as per Housing Scheme 2012-13	396,228	396,228
3	Custom duties	3,664,371	1,531,351
4	Port Fees	1,064,939	1,023,716
5	Landing Charges	614,131	215,845
6	Fuel Sales	309,536	127,950
7	RPC Fees	7,108,000	768,000
8	SOE's (Ronphos)	6,660,472	9,660,472
		19,834,427	13,763,641

Compared to the previous year, there was an overall increase in net receivables as at 30.6.2015 and also there is no movement in the Housing Loan paid during the year 2012-13. Recovery has not yet started from the persons for whom the Government had paid interest free Housing Loan.

1. **Accountable Allowance receivable:**

Few Accountable allowance paid to various officers were not settled as at 30th June 2015. The amount comes to approximately \$0.017 million.

2. **Housing Loan:**

Loan provided to 14 individuals as per the housing policy scheme adopted by the Government in 2012-13. The loan outstanding as at 30th June 2013 still continues without any movement. The total amount to be recovered is \$0.40 million as at 30th June 2015.

The management has confirmed that efforts were made to recover this amount. Individual letters have been served on these debtors and given them options to repay this amount.

3. **Customs Duty:**

Customs department released some of the perishable items upon submission of declarations by various importers and subsequent verification by Customs. Invoices have been raised on the parties and few of the payments were due to be received as at 30th June 2015, it amounts of \$3.66 million. There is substantial increase this year in this receivable.

There is no proof submitted to Audit to confirm the authenticity of the dues or further proof of recovery. **Any misstatement of this would affect the net receivable as at 30.6.15.**

4. **Port Fee:**

A sum of \$1.06 million is due towards port fee charged on entry of Vessels on Nauru Water. Invoices have been raised on parties and the payment is due as at 30th June 2015. Out of this certain amount is for the prior years but its data is not available. Audit is unable to verify this amount due to lack of material evidence. **Any misstatement of this would affect the net receivable as at 30.6.15.**

5. **Landing Charges:**

The landing charges due from Aergo International and Our Airlines estimated at \$0.61 million.

6. **Fuel Sales:**

The Fuel charges are due from various business houses within Nauru which amounts to \$0.31 million.

7. **RPC Income:**

RPC income is towards Visa Fee charged against granting Visas to Refugees and also reimbursable costs. A sum of \$7.10 million is due from RPC as at 30th June 2015.

8. **Receivable from RONPHOS:**

RONPHOS due is one of the highest amongst the receivables. It amounts to \$6.66 million. This payment is due towards Royalties and dividends declared to be received from them as at 30th June 2015. However, Audit could not find any data to authenticate this amount as dues from RONPHOS, other than a budget declaration. **Any misstatement of these balances would affect the net results for the year ended 30th June 2015**

2.5 NON-CURRENT ASSETS:

- 2.5.1 In the previous year the value of Fixed Assets were determined through an Assets Valuation as there was no opening balance available as at 1st July 2013. Fixed Assets values were derived from the listing provided by the Assessor, a certified Assets Valuator, who had been appointed to value all Government Assets as at 30th June 2014. Value of all inventories/fixed assets were brought into the books of accounts through the independent assessment of its value less depreciation as at 30th June 2014. The same Asset Schedule has been considered for the year 2014-15 also. The existing assets value was decreased without depreciating any amount or without any sale of assets or discarding of any assets. The management clarified that there effected depreciation for each asset during the year but audit could not find the net effect of depreciation expenses in the P&L statement. No revised Asset Schedule submitted to Audit for verification. It should be considered as a clear non-compliance of Accounting Standards, IAS 16 (16.48) **Any misstatement of these balances would affect the net results for the year ended 30th June 2015.** The asset schedule attached to this report is the same schedule of 2013-14 without affecting any changes to it.

During the current year no additions were made to any of the Assets.

Following are the brief details of Fixed Assets/inventories held by Government of Nauru as at 30th June 2015.

(Ref Annexure A, B, C & D).

	Year 2014-15	Year 2013-14
	Amount in AU\$	Amount in AU\$
Furniture & Fixtures	312,301	343,188
Air Conditioners	66,050	84,922
Motor Vehicles	751,653	894,825
Buildings	20,555,151	21,671,500
	21,685,155	22,994,435

- 2.5.2 All Assets purchased during the year had also been accounted as expenses incurred instead of Capitalize the same. None of the Assets were included along with the Assets valuation listing. It's a violation of International Accounting Standards, IAS16. It means fundamental approach to the accounting for property, plant and equipment were not carried out by the Treasury. IAS 16 requires that determination of assets purchased has to be recognised and the determination of carrying amounts and the depreciation charges and impairment losses has to be recognised in relation to it.
- 2.5.3 Management has confirmed that the government doesn't have an asset management policy in place, hence, all capital items are treated as expense items. The government is in the process of preparing a new Assets Policy which should be in place in due course.

2.6 STORES MANAGEMENT

- 2.6.1 The Republic is having a warehouse where costly items are kept for use. Since the Government is mainly dealing with Cash accounting, all items purchased are considered as expenditure incurred during the year, hence, the stock/inventories hasn't brought into the

Annual Financials as Assets. There is no stock take verification attached to the Annual Financials. There is no store accounting procedures in force of the Government at present.

- 2.6.2 Audit could not conduct any test check as the auditing is conducted after 2years of financial year closing. Hence, the stores accounting system and control and adherence to and implementation of the prescribed procedures (if in force) could not be verified.

2.7 INVENTORY CONTROL

- 2.7.1 Various departments are holding valuable items of Office Equipment, Office Furniture, Plant & Equipment items, etc. which need to be recorded in the form of an Assets Register detailing its particulars such of brand, code, date of purchase, cost, reference to purchase PV and PV register, etc. No items could be removed out of the inventory except under proper authority which should also be recorded in the register. Inventory holding are required to be physically verified at least once a year and discrepancies have to be reported to appropriate authority for necessary adjustments.
- 2.7.2 Details of all item purchased by all Government departments are finally reaching to the Treasury department and Treasury has to maintain all details of Government Assets in an Asset Register to enable calculation of depreciation at the end of each financial year.
- 2.7.3 As mentioned in page 12, 2.5.3 of this report, the Treasury doesn't have an assets policy at present. Audit would suggest that the Government must bring out an Assets Policy of the Government so that all assets of the government are recorded properly. **The Current system of treating all asset purchases as expenditure incurred in a year has to be modified. At present the Plant & Equipment purchases are grouped in the Budget/FMIS under expenditure head which should be regrouped under 'Assets' so that all assets purchases are recorded in the Assets Ledger. Treasury may make a policy that items valued up to certain amount (say up to \$100/-) should be treated as expenditure and other high value items are treated as Assets. The Account code of FMIS should be regrouped/altered accordingly.**

2.8 LIABILITIES:

MAJOR CREDITORS:

- 2.8.1 The major creditors during the year were:
- Eigigu Holding Corporation
 - Ronphos
 - Nauru Utilities Corporation – Water & Electricity
 - Pacific Asia Express Shipping
 - Reach Global Services
 - Japan Post service
 - Universal Postal Union

- International Telecommunication Union
- International Civil aviation organization
- ACP
- Global Forum on Tax Transparency

2.8.2 The Payables has been valued at 126.26 million (*106.31million – previous year*) as at 30th June 2015. It was mainly due to the increase in external loans/borrowings, particularly due to considering the Yen-Bond debt payment as a legitimate debt.

2.8.3 Brief details of payables as at 30th June 2015 are given as under:

		Amount \$	Reference
1	Accounts payable (Creditors)	5,751,947	
2	Domestic debts	9,202,341	Note 6
3	External Debts	6,863,000	Note 7
4	Domestic debts (Bank of Nauru, NPRT, RONPHOS dues)	63,795,463	Note 8
5	External Debts (Exim bank and ROC Loan	9,401,000	Note 9
6	Yen-Bond repayment	31,242,826	Note 9
		126,256,577	

1. Accounts payable to Creditors:

Accounts payable to various parties have been identified as \$5.75 million. No details of creditors with listings are available to verify and confirm these sums as payables. **Any misstatement of these balances would affect the results for the year ended 30th June 2015.**

2. Domestic Debts: (NUC water & Electricity, Eigigu Holding Corporation.)

Expats accommodation charges payable to Eigigu Holding Corporation as at 30.6.15 was \$1.33 million.

A sum of \$7.29 million has to be paid to RONPHOS on account of hiring of equipment and mooring charges.

Further sum of \$ 0.58 million was payable to Nauru Utilities Corporation towards Water and Electricity charges.

No comparison could be made on this outstanding debt due to lack of material evidence.

Any misstatement of these balances would affect the results for the year ended 30th June 2015.

3. External Debts (1)

Payables to various parties overseas have been identified to the tune of \$6.86 million (*\$7.22 million in previous year*). This payment is pending to be made towards Shipping line, Membership and annual fee payable to various Organizations, Postal service charges payable etc. Details are given in Note No.7 of the Financial Statement.

4. Domestic Debts (Bank of Nauru, NPRT, RONPHOS dues)

Bank of Nauru has been liquidated and outstanding amount, payable to various private sector account holders, were identified @ \$37 million by the liquidators. This amount has become a liability of GoN to the people under section 4 of the Bank of Nauru Act 1976. Out of the total outstanding of \$36.92 million as at 30th June 2014, a sum of \$2.34 million has been paid out during the year and a provision for the remaining balance of \$34.53 million has been provided in the Financial Statements which has to be paid in instalments to the private sector account holders.

During the previous year, **the NPRT** (Unconsolidated) has been identified as \$26.86 million, the liability of which came on the Government towards Ronwan Capital and Interest payable to the Trust members of NPRT, subsequent to adoption of liquidating Nauru Phosphate Royalties Trust by the Government. This amount is still remaining in the books of account, without any movement as at 30th June 2015.

Out of the \$2.90 million due to **Ronphos** as at 30th June 2014, a sum of \$0.50 million has been paid during the year. The balance outstanding as at 30th June 2015 is \$2.4 million.

5. External Debts (2)

External loan availed outstanding as at 30th June 2015 is \$9.4 million. The loan availed is from Taiwan Exim Bank. During the current year a sum of \$1.92 million has been paid off and the remaining balance as at 30th June 2017 is \$9.4 million. Details are given as under:

Taiwan Exim Bank Loan		
Particulars	As on 30.6.2015	As at 30.6.2014
Debt outstanding	7002000	8926000
Principal	2399000	2399000
	9401000	11325000

6. The contingent liability of prior year amounting to \$31.24 million has been considered as an outstanding legitimate debt against the Yen Bond deal. Accordingly the amount has been provided as at 30th June 2015 as payable.

- 2.8.4 Out of the total public debt of \$104.44 million, the external debt (foreign currency loans) is amounting to \$40.64 million (*\$12.83 million during the previous year*) and the balance 63.80 million is of Republics' Instrumentalities (BON 34.53 million, NPRT \$26.87 million and RONPHOS \$2.40 million). Details of various loans availed and outstanding as at 30th June 2015 are available in the Annual Report, Note 8 and 9. The foreign currency loan has increased mainly due to inclusion of the anticipated Yen bond repayment amounting to \$31.24 million.
- 2.8.5 No comparison could be made on the redemption dates and outstanding loans due to lack of material evidence for previous years. The Governments obligations, resources and plan to repay the loans were also not available. There is also no mention on all the guarantees and indemnities given so far by the Republic.

2.8.6 Audit is of the opinion that all such obligations must be identified and detailed separately in the Notes to the Accounts.

2.9 OTHER ISSUES:

2.9.1 EXPENSES THROUGH 'SPECIAL PROJECTS':

During the current year also a sum of \$9.61 million (*\$4.18 million previous year*) has been spent under the expenses head 2235, 'Special Projects' against the budgetary provision of \$9.95 million. This amount, under Special Project, is spent towards various expenditures and also on behalf of various departments. It means it is a confluence of different kind of expenses, incurred on behalf of various departments, which ultimately leads to reduced projection of department-wise actual expenses, so also actual expenses against each account head of Whole of Government accounts.

It is a violation of Generally Accepted Accounting Principles. It impacts the actual expenditure in the Annual Financial Statement against certain account head. The expenditure incurred through this account against various account head might lead to exceeding the actual fund granted for each department. The treasury should appropriate the expense incurred from this account into its actual account heads periodically after obtaining necessary approval of the Cabinet or if a particular department exceeds its approved budget limit, fresh approval must be sought through the Parliament before any amount is expended.

2.9.2 ASSETS Vs LIABILITIES:

The total liability of the Government as at 30.6.2015 is \$126,256,577/- (*\$106,311,060/- previous year*) which exceeds total assets value of \$87,438,001/- (*\$74,521,896/- previous year*). This initial analysis indicates that there could be an issue with the Government of Nauru unable to pay its liabilities and could potentially be a going concern, especially given that audit could not verify some of these balances.

However, further analysis highlights that the current ratio, which is detailed below, provides some assurance that the Government has the ability to meet its current obligations as they fall due;

Current Assets	:	\$50,236,066 (<i>\$34,707,343 previous year</i>)
Current Liabilities	:	\$21,817,288 (<i>\$26,802,235 previous year</i>)

The concern audit has is that most of the current assets balance cannot be verified and therefore, if there is a lack of sufficient evidence that the current assets are liquid assets, then there is a risk that Government may face financial stress in not being able to meet their obligations to creditors.

3. STATEMENT OF REVENUE BY BUDGET HEAD (STATEMENT- C)

BUDGET ESTIMATES:

3.1 Source of Revenue:

3.1.1 Breakdown of the estimated revenue of \$115,304,477/- for the fiscal 2014-15 is as under:

<u>PUBLIC SECTOR</u>	<u>AMOUNT \$</u>	<u>%</u>
RONPHOS (Royalties & Dividend)	9,362,247	
FISHERIES	28,966,222	
OTHER SOE'S	7,871,698	
Total (A)	46,200,167	40
<u>PUBLIC UTILITIES</u>		
Civil Aviation	2,553,933	
Police	10,000	
Media Bureau	50,000	
Total (B)	2,613,933	2
<u>GOVERNMENT SERVICES</u>		
Finance	44,385,503	
Justice & Border Control	19,676,628	
Judiciary	12,000	
Chief Secretary	511,335	
Post & Philately	16,220	
Health	26,700	
ICT	854,340	
Lands & Survey and Lands Committee	240	
Sports	2,500	
Maritime Transport	1,000,461	
Lands Transport	1,300	
Education	3,150	
Total (C)	66,490,377	58
Grand Total (A) + (B) + (C)	115,304,477	100

3.2 REVENUE RECEIPTS

3.2.1 The revenue receipt for the year is actually **decreased by \$ 20,142,815/-** than the budget forecast. The decrease resulted mainly due to abnormal receipt of income from Custom duties (\$9,013,605/-), Ronphos Royalties and Dividend (\$9,362,247/-), Visa Revenue (\$1,069,800/-), Civil aviation, Income other SOEs, etc. However there was a substantial increase in some of the revenue receipts such as Fuel sales (4,701,593/-), Taxation revenue (\$1,185,243/-), General Budget support was also substantially increased by \$2,666,180/- during the year.

3.2.2 It necessitated Treasury to raise additional fund to meet the expenses as the net Revenue of \$95,161,662/- was not enough to meet the net expenses of \$102,063,965/-.

3.3 EXPLANATION FOR REVENUE VARIATIONS:

- 3.3.1 No explanations furnished by any departments for the variations between actuals and estimate of revenue. Following are the details of revenue realised as compared to Budget Estimates:

Department & Sub-head	Budget Estimate	Actual Revenue	Over/Under estimate
Fishing Licenses	28,966,222	28,883,361	- 82,861
Customs & Excise duty	17,936,957	8,923,352	- 9,013,605
Fuel Sales	11,954,803	16,656,396	4,701,593
Ronphos Royalties	7,295,200	-	- 7,295,200
Rohphos Dividends	2,067,047	-	- 2,067,047
Civil Aviation Revenue	2,503,933	1,706,835	- 797,098
Port fees	1,000,461	1,295,761	295,300
Warehouse sales	-	67,346	67,346
Telecom tax & Dividends	764,340	601,898	- 162,442
Taxation Revenue	5,408,000	6,593,243	1,185,243
Visa Revenue	19,440,110	18,370,310	- 1,069,800
Income from other SOEs	7,871,698	1,041,339	- 6,830,359
Other Income	5,425,896	3,685,831	- 1,740,065
General Budget Support	4,669,810	7,335,990	2,666,180
	115,304,477	95,161,662	- 20,142,815

4. STATEMENT OF EXPENDITURE BY BUDGET HEAD (STATEMENT -D)

4.1.1 Ministry-wise/department-wise authorised estimated expenditure, and actual incurred, as at 30th June 2015 is tabulated as under:

Sector	Budgeted	% of Budget	Actual Expenditure	% of total Expenditure
CONSTITUTIONAL				
Presidency and State house including GIO	3,374,563	2.93	3,324,680	3.26
Ministerial	2,849,813	2.47	2,765,482	2.71
Parliament	1,755,688	1.52	823,815	0.81
Chief Secretariat	8,025,901	6.97	7,595,039	7.44
Judiciary	1,523,832	1.32	1,277,519	1.25
SOES				
Fisheries	1,410,317	1.22	1,298,021	1.27
OTHER DEPARTMENTS				
Education	7,251,610	6.30	6,377,655	6.25
Health	9,024,141	7.84	8,715,648	8.54
Warehouse	268,878	0.23	235,716	0.23
Post & Philately	169,324	0.15	142,830	0.14
Audit	257,780	0.22	219,179	0.21
Police	2,426,931	2.11	2,333,464	2.29
Lands & Survey/Management/Committee	7,372,367	6.40	6,635,750	6.50
Justice & Border Control	5,499,147	4.78	4,693,769	4.60
Women affairs	95,825	0.08	88,220	0.09
Home affairs	1,752,131	1.52	1,678,588	1.64
Youth affairs	106,216	0.09	93,440	0.09
Foreign affairs	764,460	0.66	726,248	0.71
Sports	286,332	0.25	154,775	0.15
Overseas Offices	2,779,425	2.41	2,265,511	2.22
Media Bureau	383,053	0.33	365,055	0.36
Finance Secretariat	2,217,996	1.93	1,999,718	1.96
Public Debt	5,973,813	5.19	5,825,922	5.71
Bureau of statistics	87,605	0.08	48,240	0.05
Nauru Revenue Office	569,877	0.49	475,452	0.47
Finance other payments	40,415,967	35.10	35,015,681	34.31
Correctional Services	449,993	0.39	382,931	0.38
Civil aviation	1,519,482	1.32	1,409,991	1.38
ICT	1,065,075	0.92	938,755	0.92
CIE	754,593	0.66	456,322	0.45
Fire & Rescue	449,793	0.39	358,464	0.35
Transport secretariat/Maritime Transport	4,262,853	3.70	3,342,085	3.27
TOTAL	115,144,781	100.00	102,063,965	100.00

Budgeted:

Revenue estimated by those departments \$ 86,294,333
(Other than Fisheries and other SOEs)

Expenditure provided by government departments
(Other than Fisheries and SOEs) \$ 113,734,464

Net variation(over and above income) (A) \$ -27,440,131

Actual:

The Actual Revenue receipts of these departments	\$ 64,121,914
Actual expenditure of the departments	<u>\$ 100,765,944</u>
Net variation (B)	<u>\$ -36,644,030</u>

- 4.1.2 The projected expenditure of these departments was almost 31.80% over and above the income. The actual expenditure was also about 57.14% over and above the actual income. This was met by the Treasury department by other means of income such as Fisheries income and Donor Aid Income.**

4.2 UNDER UTILIZATION OF BUDGET PROVISION

- 4.2.1 The appropriation Act 2014-15 provided for expenditure of 115.14 million. The actual expenditure of \$102.06 million did not come up to even the original budget for 115.47 million falling short by \$13.08 million (11.36%).
- 4.2.2 The savings of \$13.08 million befallen mainly under Finance, constitutional, Judicial and community services departments as would be seen from the following table:

			Amount in Million
Sector	Budget	Actual	Under spent
Constitutional	16.01	14.51	1.50
Community Services	31.66	28.79	2.87
Judiciary/Justice	7.47	6.35	1.12
Transport	5.78	4.75	1.03
Finance	49.27	43.37	5.90
Foreign affairs & External Offices	3.54	2.99	0.55
Other Units	1.41	1.30	0.11
	115.14	102.06	13.08

- 4.2.3 Actual expenditure confined within the budget provision, supplementary additions and inter-subhead transfers under all sub-heads with most of the departments. Thus, the final accounts of the Republic for 2014-15 show only under-utilization of provision in most of the sub-heads of every department and account head.
- 4.2.4 Section 8(5) of the Public Finances (Control and Management) Act 1997 empowered the Cabinet to authorize the Minister for Finance that if it becomes necessary to alter the amount assigned to the sub-division under a division of expenditure or to create a new sub-division, the Cabinet may authorize the Minister to direct in writing that there shall be applied in aid of any sub-division which may be deficient or any new-sub division a sum or further sum, as the case may be out of any surplus arising or any other sub-division of the same division.

4.3 **CONTROL OVER EXPENDITURE:**

- 4.3.1 Heads of Departments, as Accounting Offices, are to ensure that the Budget Estimates for their departments are realistic and reasonably correct projections of their actual requirements of funds, which can be utilised within the financial year. It is necessary to see that the appropriations under various sub-heads are neither too excessive which may result in utilised provision at the end of the financial year nor too inadequate resulting in over-expenditure requiring additional funding through supplementary grant or Inter sub-head transfers.
- 4.3.2 The Heads of departments are also required to exercise effective control over expenditure by constantly monitoring progress of expenditure during the year. It is, however, observed as pointed out in the succeeding paragraphs; that:-
- Original budget provisions were either too inadequate or excessive under many sub-heads.
 - Due to lack of effective monitoring and control over expenditure, there was excess provision under a very large number of sub-heads after the close of the financial year.
 - The provision made in the Budget for some departments under certain sub-heads were quite insufficient and had to be increased very substantially by Inter-Account Transfers.
 - The provision made for capital assets like Special Projects and for plant & equipment could not be spent fully and the balance amounts were either transferred to meet excess expenditure under other sub-heads or remained unutilised at the end of the year.

4.4 **INADEQUATE/UNAUTHORIZED BUDGET PROVISIOIN**

- 4.4.1 The original estimates of expenditure presented to Parliament in Appropriation bill for 2014-15 were too inadequate to meet the actual expenditure under one sub-head (91) which ranges to 122% of the original budget provision.
- 4.4.2 As per the data provided to Audit the Transport Secretariat (91) had incurred an expenditure of approximately 22% over and above than the approved budget. The reasons for the increase was not available in the records.

Particulars	Budget Estimate 2014-15	Actual Expenditure	Excess Expenditure over and above Budget appropriation	Per Centage
Transport Secretariat	83,719	102,123	18,404	21.98

- 4.4.3 **Audit considers that the above detailed excess spending of \$0.018 is as illegal expense as it was spent over and above the appropriation bill.**

4.5 SUBSIDIES AND DONATIONS

During the year, a sum of \$3.21 million was distributed towards subsidies and donations to various parties. Actual budget provision for year 2014-15 was for \$337,313/- towards donation to churches, various sports organizations, etc. The amount was subsequently increased through Supplementary bills to \$4.61 million to include other donations such as donation to Nauru Airlines, certification of mooring, etc. All donations made are within the approved limit.

YEAR	TOTAL BUDGET + APPROPRIATION	EXPENDITURE	EXCESS/ SHORT	PERCENTAGE
2014-15	4,609,313	3,214,631	1,394,682	30.26

- 4.5.1 The amount under spent from this account is 30.26% of the total budget appropriation, even after allocating provision through supplementary bills.

5. RESOURCE MANAGEMENT

- 5.1.1 The quantum of revenue and expenditure for the year 2014-15 has been dealt with Statement-A. It may be seen there from that the fiscal year ended with a revenue deficit of 6.90 million. The revenue realised as compared to the Budget Estimates and the reasons there for are explained in statement 'C' page 17 of this report.
- 5.1.2 Since the data for the past 15 years are not available, Audit is unable to bring out revenue deficit/surplus for the prior years. However, it has been calculated at \$38,818,576/- by the Treasury based on available data.
- 5.1.3 The Revenue deficit/surplus table for the last two years are given as under:

YEAR	REVENUE EXCLUDING SALE OF ASSETS AND LOANS	EXPENDITURE	SURPLUS/ DEFICIT
2013-14	95,467,644	86,923,480	8,544,164
2013-14 Less: Donor fund operation loss			<u>1,402,272</u>
		Net Surplus 2013-14	7,141,892
2014-15	95,161,662	102,063,965	-6,902,303
2014-15 Add: Donor fund operation loss			<u>- 127,109</u>
		Net Deficit 2014-15	-7,029,412

- 5.1.4 The major source of revenue to the Government have been the (1) Fishing License (2) Custom Duties (3) Fuel Sales (4) Visa Revenues, etc. Any significant shortfall in these revenue affects the ways and means of position of the Government necessitating raising of loans to meet Government obligations including servicing of past debts. Any increase in Government expenditure will also be a contributory factor to additional borrowings.

5.1.5 The table below gives the position of Government Revenue for the past two years:

						<i>Amount in million</i>		
Year	Receipt from Fisheries	Receipt from Fuel Sale	Receipt from Custom Duties	Receipt from Visa	Receipt from Civil Aviation	Dividend from other SOEs	Other Receipt of Govt	Total
2013-14	19.90				3.93	6.24	65.40	95.47
2014-15	28.88	16.66	8.92	18.37	1.71	1.04	19.58	95.16

Going Concern:

1. The accompanying Annual Financial statement for the year 2014-15 have been prepared assuming that the Government will establish its fair net worth, i.e. its value of net Assets and Liabilities as on 31.6.2015. As discussed in 'Statement B' 2.9.2 of this report, the Government's net Liability exceeds its net Assets as at 31.6.2015. Government's plan in regard to this matter has not described in the Annual Report. The Financial Statement does not include any adjustments/plans relating to source of adjustments to recover from this carrying liability.
2. Current year expenditure was over and above the revenue by \$7.00 million as there was less collection of revenue than expected during the year. Ways to cut back the expenses within the income has not adopted. It lead to financial stress and also resulted in escalating the Republic's net deficit from \$31.79 million to \$38.81 million dollar.
3. Besides, the Government's inability to keep proper books of accounts, as required under International Accounting Standards is also a major concern to audit. Audit find lot of flaw in maintaining the proper books of accounts mainly due to system related errors/issues.



**DEPARTMENT OF AUDIT
CIVIC CENTRE, AIWO DISTRICT
REPUBLIC OF NAURU
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INDEPENDENT AUDITOR'S REPORT

To: His Excellency the President, Hon Baron Waqa M.P

Report on the Republic of Nauru Whole of Government Financial Statements for the year ended 30 June 2015

Pursuant to Section 10(1) of the Audit Act 1973 I have audited the Annual Financial Statements of the Republic of Nauru, including the Statement of Public Debt which comprises of the following:

1. Statement of Income & Expenditure
2. Statement of Assets & Liabilities
3. Statement of Changes in Equity
4. Statement of Revenue v/s Budget
5. Statement of Expenditure Vs Budget
6. Statement of Accounting Policies
7. Notes forming part of the Financial Statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 6 of the Audit Act 1973, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. I conducted the audit in accordance with International Standards of Supreme Audit Institutions which is premised on the International Standards of Auditing. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

However because of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer Opinion:

I was unable to satisfy myself that the account balances disclosed in the financial statements were reliable or complete due to the strong likelihood that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

I was unable to obtain sufficient and appropriate audit evidence. I believe that the audit evidence/clarifications that I have obtained are not sufficient and appropriate to provide a basis for our audit opinion. The grounds and issues pertaining to our findings which were identified during the course of the audit are detailed below. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence on the matters referred therein.

1. Opening Balance, from the prior year closing balance, could not be verified on Leger in FMIS.
2. Significant difference appears between Annual Financial statement and General Ledger in many account heads. The difference was mainly with commitment levels being rolled into a different accounting period at the yearend process.
3. Fixed Assets purchases for the fiscal year were recorded as Expenses as GoN doesn't have an assets policy.
4. Bank Accounts were not reconciled.
5. Assets value decreased without effecting depreciation/sold or discarded assets.
6. No confirmation/evidence to prove most of the Debtors balances.
7. All Assets & Liabilities are not included in the Financial Statement.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements as to whether they have been properly prepared, in all material respects in accordance with the Generally Accepted Accounting Practice (Nauru GAAP) and/or International Public Sector Accounting Standards (IPSAS) and the International Financial Reporting Standards (IFRS), as determined by Govt. of Nauru.

Report on Other Legal and Regulatory Requirements

Under the Audit Act 1973, it is my statutory duty to report cases of non-observance of rules, orders and procedures, spending public moneys for purposes other than those for which the grants were made by the Parliament and non-recovery of Government revenues. On this basis I report that:

- 1 As per the Annual Financials Report 2014-15 submitted to us and also as detailed in page 21, point 4.4 (4.4.1 to 4.4.3) of this report, overspending to the tune of \$0.018 million has been caused by a department over and above the sum granted by the Parliament.
- 2 It was not clear whether the over spending was made by effecting Inter-sub head transfers or not. Net effect of inter sub-head transfer against those expenses were not reflected in the annual financial statement.
- 3 The excess was adjusted in the June 2015 account by adjusting it to below-the line account which is irregular and unauthorized.



**MANOHARAN NAIR
AUDITOR GENERAL**

Dated: 05th April 2018