



**DEPARTMENT OF AUDIT  
CIVIC CENTRE, AIWO DISTRICT  
REPUBLIC OF NAURU  
PHONE : 5573109**

Itinerary 28<sup>th</sup> March' 2017

Your Excellency,

I have examined the Annual Financial Statement of the Republic of Nauru Treasury Fund and the statement of Public Debt as at 30<sup>th</sup> June 2014, certified by the Minister for Finance and transmitted to me under Section 10(1) of the Audit Act 1973.

The last financial report submitted to audit was for the year 1997-98, a gap of 15 years that the government has not complied with a primary legislative requirement. Within my report I highlight some observations and provide recommendations whereby the Government of Nauru needs to strengthen its financial reporting framework.

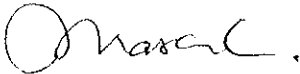
Nevertheless to be able to produce government statements after a gap of 15 years is an indication that this government is serious about accountability and transparency of the use of public funds. Therefore, I commend the great efforts by the Secretary for Finance, Mr. Martin Hunt, Dy. Secretary Mr. George Plant and the Chief Accountant Mr. Taufia Patalo to prepare the Government Annual Financials 2013-14. It was a difficult task to begin without proper opening Balances but the Chief Accountant, Mr. Taufia Patalo had taken it as a challenge to close this 15 year gap and start reporting from 2013-2014. Taufia's efforts and co-operation throughout the audit period was duly appreciated by the audit team. However this would not have been possible without the wholehearted support by the Minister for Finance, Hon. David Adeang M.P and we are truly thankful to him for the same.

As required under Section 11 (1) of the Audit Act 1973, my Independent audit opinion for the fiscal year ended 30th June 2014 on the accounts of the Republic is enclosed together with my special report incidental to my powers and duties under the Audit Act 1973.

The accounts certified by the Minister for Finance are annexed to my report and also an Independent Audit opinion.

I look forward to working with the Government of Nauru to strengthen public financial management systems and enhance accountability and transparency of government to improve the lives of the people of Nauru.

With respects,



Mr Manoharan Nair  
Auditor General

**His Excellency the President, Hon. Baron Waqa M.P.**  
**Republic of Nauru**  
**Central Pacific**



**AUDIT REPORT OF THE AUDITOR GENERAL  
ON THE  
GOVERNMENT ANNUAL FINANCIALS OF  
REPUBLIC OF NAURU  
FOR THE YEAR ENDED  
30 JUNE 2014**

**Reported by:**  
Manoharan Nair  
Auditor General  
Department of Audit  
Civic Centre, Aiwo District  
Republic of Nauru  
Phone : 5573109

28<sup>th</sup> March' 2017

REPORT OF THE AUDITOR GENERAL  
FOR THE YEAR ENDED  
30<sup>TH</sup> JUNE 2014

(UNDER SECTION 11 OF THE AUIDIT ACT 1973)

**MARCH 2017**



## Table of Contents

I. Role of Auditor General .....	2
II. Background History.....	2
III. Role of Minister for Finance .....	3
IV. Basis for issuing an Audit Opinion.....	3
V. Audit Objective & Scope.....	4
VI. Results of my Audit.....	5
1. STATEMENT OF INCOME & EXPENDITURE (STATEMENT-A).....	6
2. STATEMENT OF ASSETS AND LIABILITIES (STATEMENT-B).....	9
3. STATEMENT OF REVENUE BY BUDGET HEAD (STATEMENT-C).....	17
4. STATEMENT OF EXPENDITURE BY BUDGET HEAD (STATEMENT-D).....	19
5. RESOURCE MANAGEMENT.....	24
6. GOING CONCERN.....	24
<b>INDEPENDENT AUDITORS REPORT.....</b>	<b>25-27</b>

## AUDIT MANDATE

### 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 8<sup>th</sup> November, 1973.

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

Though it is a primary legislative requirement, Government of Nauru did not produce any Government Accounts since 1998-99 onwards, which indicates that there exists room for improvement of a currently weak financial reporting framework and mechanism.

As per Audit Act 1973, Public Finances (Control and Management) Act 1997 and other related framework, it is a primary legislative requirement of the Finance Department to prepare Annual Accounts and produce the same to the Parliament after it has been submitted to audit within three months after the end of each financial year.

The last financial report submitted to the Parliament was for the year 1997-98, which was submitted in March 1999, after it was audited by my department. However since this time, the Ministry of Finance discontinued preparing Annual Accounts which was mainly due to the ongoing problems with the Accounting package, FMIS and shortage of staff including lack of capacity and qualified accountants. There is a significant failure in the system of recording and controlling of data relating to all government accounting transactions. From 2005 to 2011 AUSAID engaged a financial team to try and manage the financial reporting system but failed to even manage to produce government accounts. This technical advisory team only managed to produce Budget Outcome Documents (BODs) during the years 2005 to 2011 however the validity of these BODs is questionable since it should be based on actual expenditure and reporting of the government's financial system, which we know is poor and very weak.

For the Ministry of Finance team led by the Minister for Finance, Secretary for Finance, Deputy Secretary and in particular the Chief Accountant Mr Taufia Patalo to complete a set of government financial statements after a 15 year gap is a huge achievement.

Despite the obvious fact that we were unable to obtain independent confirmation of opening balances as at 1<sup>st</sup> July 2013 it was agreed that all balances prior to 1<sup>st</sup> 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.

Although I have identified significant issues in the results of my audit, this is a significant improvement and the right steps forward for the Government of the Republic of Nauru to strengthen public financial management 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 4th December 2014 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 2014.

**We do not express an opinion on the Financial Statements for the year ending 30th June 2014 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 both 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 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 2014 Government 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 30<sup>th</sup> June 2014

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 30<sup>th</sup> June 2014 provided a revenue receipt of \$99.57 million as against the estimated total expenditure of \$99.47 million, including General Budget Support of \$8.66 million. The amount of \$8.66 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 \$95.46 million (4.12% decrease), mainly due to short receipt of Income, than expected, from Warehouse sales, Visa Revenue, Income from other SOEs, Telecom revenue and other miscellaneous revenues.
- 1.1.3 The actual General Budget Support revenue has also decreased to \$3.35 million against the budgeted amount of \$8.66 million.
- 1.1.4 The actual expenditure for the year 2013-14 was \$86.92million, leaving an approximate 12.61% decrease than the estimated provision.
- 1.1.5 Brief Details of the Income & Expenditure is given as under:

	Budgeted 13-14	Actual 13-14	Variation 13-14
Income	99,577,067	95,467,644	4,109,423
Expenditure (including Public debt)	99,470,610	86,923,480	12,547,130
Surplus/Deficit	106,457	8,544,164	
Less: Loss on Donor fund operation		1,402,272	
Net Surplus for the year		7,141,892	

- 1.1.6 The total expenditure includes debt repayment of \$23.29 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 reduced its expenditure to the extent possible and contained all the departments' expenses with-in the budgetary limit except (1) Business Travel and (2) Subsidies & Donations, which has shown a slight variation of 4.39% and 3.1% respectively of the budgetary limit.

1.1.8 There was a net surplus of \$7.14 million which has been transferred to the Retained earnings which reduced the overall net deficit of GON. The deficit as at 30<sup>th</sup> June 2013 was \$38.93 million. After adjusting the net surplus of \$7.14 million, the overall deficit of GON has reduced to \$31.78 million as at 30<sup>th</sup> June 2014.

1.1.9 However, in certain cases the Balances of General Ledger did not match with the figures that have been provided in the Annual Financial Statement. Following are the figures that are not matching:

**STATEMENT OF DIFFERENCES IN ANNUAL FINANCIALS AND TRIAL BALANCE**

A/c Code	Account Head	Amount as per Financial Statement	Amount as per Trial Balance Including commitment	Difference
2015	Salary Local	8,494,655.00	8,496,385.49	- 1,730.49
2155	House Rental	1,238,209.00	1,166,768.54	71,440.46
2205	R&M Plant	517,163.00	507,694.88	9,468.12
2495	Plant & Equipment purchase	1,606,005.00	1,604,456.35	1,548.65
2280	Purchase - Diesel	14,037,455.00	14,036,589.59	865.41
2395	Social Welfare - Death claims	208,800.00	206,800.00	2,000.00
2070	Travel Staff	416,209.00	402,312.47	13,896.53
2135	Stores	144,035.00	143,790.89	244.11
2315	Electricity	1,089,454.00	1,087,998.05	1,455.95
2580	Public Works	139,104.00	79,104.06	59,999.94
2999	Contingency Fund	499,052.00	476,072.08	22,979.92
2075	Travel - Business	2,610,540.00	2,598,990.70	11,549.30
2515	Debt repayment (Public Debts)	23,292,804.00	23,284,360.91	8,443.09
2130	Printing & Stationery	311,448.00	311,180.66	267.34
2330	Telephone & Internet	550,312.00	550,212.13	99.87
<b>Net Difference</b>				<b>202,528.20</b>

**Other Income**

1475	Misc. Revenue	5,671,440.00	5,672,490.40	- 1,050.40
------	---------------	--------------	--------------	------------

1.1.10 With regard to expenditure, due to the above findings, it was not possible for the Auditor to issue a clear opinion on the amounts expended.

## 1.2 Budget and Actuals:

1.2.1 The actual revenue receipts compared to expenditure for the year 2013-14 were in excess as would be seen from the following table:-

<u>Particulars</u>	<u>Year 2013-14</u>		<u>Variation</u>
	<u>Estimated</u>	<u>Actual</u>	
Revenue, excluding receipts from loans	99,577,067	95,467,644	4,109,423
Expenditure	<u>99,470,610</u>	<u>86,923,480</u>	12,547,131
<b>Surplus</b>	<b><u>106,457</u></b>	<b><u>8,544,164</u></b>	

1.2.2 The total donor funds received during the year was \$12,836,270/- whereas the total amount spent from this account is \$14,238,542/- leaving a net excess fund utilization of \$1,402,272/- which has been offset against the budget surplus.

1.2.3 Details of Donor fund received and utilized is tabulated as under:

### DONOR FUND RECEIPT AND UTILIZATION (Note 5 to Accounts)

<u>Donor</u>	<u>Total Receipt</u>	<u>Total Payments</u>	<u>Variation</u>
Aus AID	10,045,933	11,862,713	-1,816,780
Nauru GEF Small GRA	-	17,313	-17,313
CIE	229,319	315,015	-85,696
Development Fund	11,941	73,276	-61,335
EU RON Treasury	184,458	8	184,450
EU Rep 5	-	86	-86
GF R7 HIV/AIDS	-	19,714	-19,714
Japan NPGA	129,400	86	129,314
JICA	103,988	65,098	38,890
Nauru Disabled	76	-	76
NZAID	1,994,567	1,765,556	229,011
Pacific NCD Program	198	12,347	-12,149
RON Australian Sports	124,986	93,745	31,241
RON SPC	-	86	-86
RON UNCCD	-	86	-86
WHO Global Fund	-	3,913	-3,913
WHO	11,403	9,413	1,990
World Diabetes	0	86	-86
<b>Net Cash movement</b>			<b>-1,402,272</b>

## 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 2013-14 along with the other Accounts of the Republic was sent to Audit on 4<sup>th</sup> December 2014. However, due to some technical issues, the auditing started in June 2016 only. This statement contains details of all properties and assets owned by the Republic such as land, buildings, equipment of all kinds in addition to cash and investments, and the liabilities in respect of expenditure incurred up to 30<sup>th</sup> June 2014. The details were based on an asset valuation conducted by the Government. However, additions made during the year were not shown separately but included in the valuation listing as the valuation was made up to the year ending, 30<sup>th</sup> June 2014.
- 2.1.3 All the Assets and Liabilities of the Government as at 30<sup>th</sup> June 2014 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 \$38.93 million as at 30<sup>th</sup> June 2013 but there was a surplus balance of \$7.14 million during the year 2013-14 which subsequently reduced the negative balance to \$31.79 million as at 30<sup>th</sup> June 2014. This represents excess of current liabilities of the Government over the current assets as at 30<sup>th</sup> June 2014.
- 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.**

### 2.2 OPENING BALANCE:

- 2.2.1 No comparison could be made on the opening balances as this Annual Financial Statement is prepared after a gap of 15 years. The sums provided in the Financial Statements as at 30<sup>th</sup> June 2013 were not audited but taken as an opening balance after analysing the Assets and Liabilities as at 30<sup>th</sup> June 2013 and brought in to the books of accounts as an opening balance. **Any misstatement of these balances would affect the results for the year ended 30<sup>th</sup> June 2014.**
- 2.2.2 The Management has confirmed that the Opening Balances for most of the Balance Sheet items were obtained from available data at the time of compilation of the Financial Statements for the year 2013-14.

### 2.3 TRIAL BALANCE:

- 2.3.1 The Trial Balance for the year 2013-14 is not tallying. There is difference appearing between the debit and credit entries, may be due to errors from previous years.
- 2.3.2 Since there was no Annual Accounts prepared for the past 15 years, the opening balance of the Annual Financials 2013-14 are formulated by deriving an approximate accurate balance which is calculated from the actual data available with the Treasury, other than the system balance, to draw an opening balance to start with preparation of Government Accounts. **Any misstatement in this opening balances and difference will affect the accuracy of the accounts for the year 2013-14.**

### 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 30<sup>th</sup> June 2014 other than the ledger balance.
- 2.4.2 Management confirmed that the information provided in the Annual Financials was derived from available data from the Accounting Package, FMIS and also available manual spreadsheets. Final balances were not available as there have been no accounts for the past 15 years.
- 2.4.3 The receivables identified as 13.76 million as at 30th June 2014, as detailed below:

1	Housing Loan as per Housing Schme of the Govt.	396,228.00
2	Customs duties receivable	1,531,351.00
3	Port Fees receivable	1,023,716.00
4	Others	343,795.00
5	RPC Income receivable	768,000.00
6	Receivable from RONPHOS	9,660,472.00
7	Loans & Advances to employees	40,079.00
	<b>Total</b>	<b>13,763,641.00</b>

1. **Housing Loan:**

Loan provided to 14 individuals as per the housing policy scheme adopted by the Govt.

In year 2012-13 the Government had introduced a new scheme to construct houses as part of its development projects for the needy people to improve the quality of life of the people. The cost towards the house is met from the government exchequer as an advance/loan to an employee that will be recovered from their pending/forthcoming salaries within a period of 15 years. In few cases; pending payments due to the employees have been offset against this advance payment and the balance has only taken as an advance paid to them. The total amount paid as on 30<sup>th</sup> June 2014 is \$0.40 million.

There is no movement in recovering this amount. In certain cases it cannot be recovered as some of the employees have already collected their pending salaries in full, and some are no more working with the Government.

**The Government should take a decision whether to hold this amount in the books of account any further or to be considered as assistance extended to the deprived citizens.**

2. **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 30<sup>th</sup> June 2014, it amounts of \$1.53 million.

There is no proof submitted to Audit to confirm the authenticity of the dues or further proof of recovery.

3. **Port Fee:**

A sum of \$1.02 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 30<sup>th</sup> June 2014. 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 with the Treasury Department. **Any misstatement of this would affect the net receivable as at 30.6.14.**

4. **Others:**

A total of \$343,795/- is due towards Landing Charges (\$215,845/-) and Fuel Sales (\$127,950/- as at 30<sup>th</sup> June 2014. The landing charges are due from Aergo International and Our Airlines. The Fuel charges are due from various business houses within Nauru.

5. **RPC Income:**

RPC income is towards Visa Fee charged against granting Visas to Refugees. A sum of \$0.76 million is due from RPC as at 30<sup>th</sup> June 2014.

6. **Receivable from RONPHOS:**

RONPHOS dues is the highest amongst the Receivables. It amounts to \$9.66 million. This payment is due towards Royalties and dividends declared to be received from them as at 30<sup>th</sup> June 2014. However, Audit could not find any data to authenticate this amount as dues from RONPHOS other than the budget declaration. **Any misstatement of these balances would affect the net results for the year ended 30<sup>th</sup> June 2014**

7. **Loans & Advances to employees:**

Few Accountable allowance paid to various officers were not settled as at 30<sup>th</sup> June 2014. The amount comes to approximately \$0.040 million

## 2.5 NON-CURRENT ASSETS:

2.5.1 There was insufficient information in place to determine the fair value of fixed assets owned by the Government. The opening balance could not be verified due to lack of material evidence. Fixed Assets values were derived from the listing provided by an Assessor, a certified Assets Valuator, who had been appointed to value all Government Assets as at 30<sup>th</sup> 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 30<sup>th</sup> June 2014. (Net value has derived after depreciation) The firm, after assessing all the value of the Government Assets, as per the list submitted by various Government departments, opened up a fixed assets register based on their verification and valuation.

2.5.2 Following are the brief details of Fixed Assets/inventories held by Government of Nauru as at 30<sup>th</sup> June 2014 as per the List verified and submitted by the firm: (Ref Annexure A, B, C & D). In the Annexure 'A' there is slight variation between the figures of Assessors listing and Annual Financials.

		Amount in AU\$	
Furniture & Fixtures	:	343,188.00	Annexure 'A'
Motor Vehicles	:	894,825.00	Annexure 'B'
Air Condition	:	84,922.00	Annexure 'C'
Buildings	:	21,671,500.00	Annexure 'D'
		<b>22,994,435.00</b>	

2.5.3 The Corresponding depreciation expenses could not be calculated due to lack of fixed assets register as at 30<sup>th</sup> June 2013. Based on physical verification of Assets as at 30<sup>th</sup> June 2014, an updated Fixed Assets Register had been created, and the net applicable value of the assets, as recommended by the Assessor, had been taken in to the books of accounts (except furniture & fixtures) as closing balance of fixed assets as at 30<sup>th</sup> June 2014, hence, no calculation of depreciation was necessitated.

2.5.4 All the Assets purchased during the year had also been accounted as expenses incurred instead of Capitalize the same. However, it has been included along with the Assets valuation listing. The Assets valuation list prepared includes all existing assets purchased as at 30.6.2014.

2.5.5 Treating Assets Purchases as expenses is a violation of Generally Accepted Accounting Practice – IFRS 17 (IAS 16) which 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. But Treasury did not follow the Accounting principles and did not account for all the assets purchased during the year but treated it as all expenses incurred for the year.



- 2.5.6 Management has confirmed that the government doesn't have an asset management policy in place at present, hence, all capital items are treated as expense items and as such no formal depreciation schedule for government assets. 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 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 2½ years of the 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 landing up with 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 16, 2.5.6 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 assets purchases as expenditure incurred in a year has to be altered. 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 were:

- Public Servants (Pending Salary)
- Eigu Holding Corporation ( Accommodation for Govt. staff)
- Shipping Lines
- Universal Postal Union
- Other International Organizations/Unions
- SPC, etc.

2.8.2 The Payables has been valued at 106.31million as at 30<sup>th</sup> June 2014. It was mainly due to the increase in both domestic and external loans/borrowings and also due to Accounts payable to various parties.

2.8.3 Brief details are given as under:

	<b>Particulars</b>	<b>Amount \$</b>	<b>Reference</b>
1	Accounts Payable (Creditors)	8,602,067	-
2	Domestic Debts (Pending Salary, Court order)	10,973,167	Note 6
3	External Debts (payment to various parties)	7,227,000	Note 7
4	Domenstic Debts (Bank of Nauru, NPRT, RONPHOS dues)	66,681,825	Note 8
5	External Debts (Exim Bank and ROC Loan)	12,827,000	Note 9
		<b>106,311,059</b>	

**1. Accounts payable to Creditors:**

Accounts payable to various parties have been identified as \$8.60 million. No details of creditors with listings are available to verify and confirm these sums as payables.

**2. Domestic Debts: (Pending Salary, Court Order)**

Pending Salaries and other debts has been paid to the tune of \$ 23.29 million during the year. It was paid against the Budget provision of \$23.37 million. However, still there is a remaining balance of \$10.97 million payable towards pending salary and court order payment as at 30<sup>th</sup> June 2014.

No comparison could be made on this outstanding debt as the Annual Financial Statement is prepared after a gap of 15 years. **Any misstatement of these balances would affect the results for the year ended 30th June 2014.**

## 2.8 LIABILITIES:

### MAJOR CREDITORS:

2.8.1 The major creditors were:

- Public Servants (Pending Salary)
- Eigigu Holding Corporation ( Accommodation for Govt. staff)
- Shipping Lines
- Universal Postal Union
- Other International Organizations/Unions
- SPC, etc.

2.8.2 The Payables has been valued at 106.31million as at 30<sup>th</sup> June 2014. It was mainly due to the increase in both domestic and external loans/borrowings and also due to Accounts payable to various parties.

2.8.3 Brief details are given as under:

	Particulars	Amount \$	Reference
1	Accounts Payable (Creditors)	8,602,067	-
2	Domestic Debts (Pending Salary, Court order)	10,973,167	Note 6
3	External Debts (payment to various parties)	7,227,000	Note 7
4	Domenstic Debts (Bank of Nauru, NPRT, RONPHOS dues)	66,681,825	Note 8
5	External Debts (Exim Bank and ROC Loan)	12,827,000	Note 9
		<b>106,311,059</b>	

#### 1. Accounts payable to Creditors:

Accounts payable to various parties have been identified as \$8.60 million. No details of creditors with listings are available to verify and confirm these sums as payables.

#### 2. Domestic Debits: (Pending Salary, Court Order)

Pending Salaries and other debts has been paid to the tune of \$ 23.29 million during the year. It was paid against the Budget provision of \$23.37 million. However, still there is a remaining balance of \$10.97 million payable towards pending salary and court order payment as at 30<sup>th</sup> June 2014.

No comparison could be made on this outstanding debt as the Annual Financial Statement is prepared after a gap of 15 years. **Any misstatement of these balances would affect the results for the year ended 30th June 2014.**

**3. External Debts (1)**

Payables to various parties overseas have been identified to the tune of \$7.22 million. 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. Accordingly the above provision of \$36.92 million has been provided in the Financial Statements which has to be paid in instalments to the private sector account holders.

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.

A sum of \$2.90 million is due to Ronphos towards loan availed from them as at 30<sup>th</sup> June 2014.

**5. External Debts (2)**

Loans at present, as per the data provided to us:

(1) Republic of Taiwan (Menen Hotel Loan)	:	\$ 1,502,000
(2) Taiwan Exim Bank Commercial Loan :	:	<u>\$11,325,000</u>
<b>Total External Loans</b>	:	<b><u>\$12,827,000</u></b>

2.8.4 Out of the total outstanding public debt, the external debt (foreign currency loans) amounted to \$12.83 million and the balance debt is from the Republics Instrumentalities (BON, NPRT, RONPHOS and employees (pending salary). Details of various loans availed and outstanding as at 30<sup>th</sup> June 2014 are available in the Annual Report, Note 8 and 9.

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':**

The head 2235, 'Special Projects' has considered and grouped under the head Expenditure. During the year 2013-14, a sum of \$4.18 million has been expended from this account head against the budgetary provision of \$4.79 million. Audit noticed that it is spent against 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 for 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 limit, fresh approval must be sought through the Parliament before any amount is expended.

### **2.9.2 CONTINGENT LIABILITY:**

There is a mention about Contingent Liability that might be charged on the Government to the tune of \$31.24 million. However, it is not reflecting in the financial statement as at the time of preparing this financial statement it is not considered as legitimate debt as it is pending before court ruling. This could materially affect the Financial Statement if it is proven to be a legitimate debt.

### **2.9.3 ASSETS Vs LIABILITIES:**

The total liability of the Government totalling \$106,311,060/- exceeds total assets of \$74,521,896/-. 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	:	34,707,343
Current Liabilities	:	26,802,235

The concern audit has is that 40% 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 \$99,577,067/- for the fiscal 2013-14 is as under:

<u>PUBLIC SECTOR</u>		<u>AMOUNT \$</u>	<u>PERCENTAGE</u>
RONPHOS (Royalties & Dividend)		5,950,496	
UTILITIES		-	
NAC		-	
FISHERIES		<u>14,978,420</u>	
<b>Total</b>	<b>(A)</b>	<b><u>20,928,916</u></b>	<b>21.02</b>
<u>PUBLIC UTILITIES</u>			
Civil Aviation		3,009,733	
Police		6,500	
Media Bureau		<u>50,000</u>	
<b>Total</b>	<b>(B)</b>	<b><u>3,066,233</u></b>	<b>3.08</b>
<u>GOVERNMENT SERVICES</u>			
Finance		47,499,690	
Justice & Border Control		19,269,575	
Judiciary		12,000	
Chief Secretary		25,700	
Post & Philately		66,220	
CIE		127,750	
Ware House		1,944,020	
Health		28,200	
ICT		1,421,838	
Lands & Survey and Lands Committee		2,795,897	
Sports		2,500	
Maritime Transport		2,250,461	
Lands Transport		57,700	
Education		80,367	
<b>Total</b>	<b>(C)</b>	<b><u>75,581,918</u></b>	<b>75.9</b>
<b>Grand Total</b>	<b>(A) + (B) + (C)</b>	<b><u>99,577,067</u></b>	<b>100</b>

#### 3.2 REVENUE RECEIPTS

3.2.1 The revenue receipt for the year is actually decreased by \$ 4,109,423/- than the budget forecast. The actual projection was for \$99,577,067. The decrease resulted mainly due to abnormal receipt of income from Warehouse sale, Visa revenue, Other Income and Other SOE Income. However there was a substantial increase in some of the revenue receipts such as Fishing Licenses (5,030,942), RONPHOS Royalties (2,715,643), Civil Aviation Revenue (927,866), Port Fees (1,168,801), etc.

3.2.2 Income from Fisheries was almost 32.80% more, than the budgeted forecast mainly due to additional Fishing license issuance to various Fishing Companies.

Estimated Income from Fisheries	\$ 14,978,420.00
Actual Income from Fisheries	<u>\$ 19,892,930.00</u>
<b>Excess income than projected</b>	<b>\$ 4,914,510.00</b>
Expenditure on Fisheries dept.	<u>\$ 1,456,798.00</u>
<b>Net Surplus</b>	<b>(C) \$ 18,436,132.00</b>

3.2.2 There was no need of additional fund raising to meet the expenses as the balance fund was in surplus against overall expenses of the government during the year.

### 3.3 EXPLANATION FOR REVENUE VARIATIONS:

3.3.1 No explanations furnished by the 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	14,861,988	19,892,930	5,030,942
Customs & Excise duty	18,183,657	18,711,235	527,578
Fuel Sales	15,093,746	15,634,819	541,073
Ronphos Royalties	1,183,350	3,898,993	2,715,643
Ronphos Dividends	2,603,370	2,051,503	- 551,867
Civil Aviation Revenue	3,003,733	3,931,599	927,866
Port fees	2,250,461	3,419,262	1,168,801
Warehouse sales	1,944,020	46,838	- 1,897,182
Telecom tax & Dividends	764,340	301,988	- 462,352
Visa Revenue	18,000,000	15,967,945	- 2,032,055
Income from other SoEs	2,371,698	290,243	- 2,081,455
Other Income	10,646,894	7,964,331	- 2,682,563
General Budget Support	8,669,810	3,355,958	- 5,313,852
<b>Total Income</b>	<b>99,577,067</b>	<b>95,467,644</b>	<b>- 4,109,423</b>

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

4.1.1 Ministry-wise/department-wise authorised estimated expenditure, and actual incurred, as at 30<sup>th</sup> June 2014 is tabulated as under:

SECTOR	Budgeted	% of Budget	Actual Expenditure	% of total expenditure
<b>CONSTITUTIONAL</b>				
Presidency	854,609	0.86	852,744	0.98
Ministerial	1,116,296	1.12	1,101,415	1.27
Parliament	1,016,725	1.02	674,629	0.78
Chief Secretary	3,309,607	3.33	3,294,909	3.79
Judiciary	501,026	0.50	433,934	0.50
<b>SOE'S</b>				
Fisheries	1,456,798	1.46	1,363,356	1.57
<b>OTHER DEPARTMENTS</b>				
Education	5,278,170	5.31	4,830,607	5.56
Health	7,209,382	7.25	6,736,466	7.75
Warehouse	635,186	0.64	617,079	0.71
Housing		-		0.00
Post & Philately	143,442	0.14	131,241	0.15
Audit	209,210	0.21	160,763	0.18
Police	1,457,072	1.46	1,216,168	1.40
Lands & Survey/Management/Committee	3,968,635	3.99	3,521,860	4.05
Justice & Border Control	2,680,730	2.69	1,913,591	2.20
Home Affairs	1,054,653	1.06	987,032	1.14
Foreign Affairs	424,035	0.43	411,434	0.47
Sports	248,668	0.25	182,101	0.21
Overseas Offices	2,641,995	2.66	2,122,884	2.44
Media Bureau	351,194	0.35	322,836	0.37
Finance Secretariat	35,488,068	35.68	27,576,275	31.72
Public Debt	23,374,714	23.50	23,292,803	26.80
Correctional Services	360,256	0.36	366,976	0.42
Civil aviation	1,112,973	1.12	955,490	1.10
ICT	763,881	0.77	734,079	0.84
CIE	472,266	0.47	390,438	0.45
Fire & Rescur	414,165	0.42	338,349	0.39
Transport Secretariat/Lands/Maritime Transport	2,926,855	2.94	2,394,020	2.75
<b>TOTAL</b>	<b>99,470,611</b>	<b>100.00</b>	<b>86,923,479</b>	<b>100.00</b>

**Budgeted:**

Expenditure provided by government departments (Other than Fisheries)	\$ 89,664,937.00
Revenue estimated by those Govt. Depts.	\$ 84,598,647.00
<b>Net variation(over and above income) (A)</b>	<b>\$ -5,066,290.00</b>

**Actual:**

The Actual Revenue receipts of these departments	\$ 73,671,717.00
Actual expenditure of the departments	\$ 78,292,125.00
<b>Net variation (B)</b>	<b>\$ -4,620,408.00</b>



- 4.1.2 The projected expenditure of these departments was almost 6% over and above the income. The actual expenditure was also about 6.27% 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 2013-14 provided for expenditure of 99.47 million. The actual expenditure of \$86.92 million did not come up to even the original budget for 99.47 million falling short by \$12.55 million (12.61%).

- 4.2.2 The savings of \$12.61 million befallen mainly under Administrative Social and community departments other than the departments of public utilities as would be seen from the following table:

<u>SECTOR</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>Amount in Million</u> <u>UNDER-SPENT</u>
a) Constitutional	9.57	8.62	0.95
b) Community Services	22.00	20.00	2.00
c) Judiciary	3.54	2.71	0.83
d) Transport	4.04	3.35	0.69
e) Finance	58.86	50.87	7.99
f) Other Units	1.45	1.36	0.09
			<u>12.55</u>

- 4.2.3 Actual expenditure exceeded the budget provision under few sub-heads with few departments. These excesses were, however, covered in some cases by Inter-sub-head transfers within the same heads duly approved by the Cabinet. Thus, the final accounts of the Republic for 2013-14 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.

- 4.2.5 In spite of utilisation of savings to cover excess of expenditure, large savings occurred under certain sub-heads of some departments. Reasons for shortfall in expenditure where the unutilised provision was substantial and/or was more than certain per cent of the Budget allocation, as furnished by the departments, are summarised below:-

Department & Sub Head	authorized	Actual	Under Expended	%
Presidency	854,609.00	852,744.00	1,865.00	0.22
Ministerial	1,116,296.00	1,101,415.00	14,881.00	1.33
Chief Secretary	3,309,607.00	3,294,909.00	14,698.00	0.44
Audit	209,210.00	160,763.00	48,447.00	23.16
Parliament	1,016,725.00	674,629.00	342,096.00	33.65
Foreign Affairs - Secretariat	424,035.00	411,434.00	12,601.00	2.97
Foreign Affairs - Brisbane	693,493.00	635,960.00	57,533.00	8.30
Foreign Affairs - Suva	729,836.00	233,148.00	496,688.00	68.05
Foreign Affairs - Taiwan	212,483.00	196,465.00	16,018.00	7.54
Post & Philately	143,442.00	131,241.00	12,201.00	8.51
GON Warehouse	635,186.00	617,079.00	18,107.00	2.85
CIE	472,266.00	390,438.00	81,828.00	17.33
Police	1,457,072.00	1,216,168.00	240,904.00	16.53
Education	5,278,170.00	4,830,607.00	447,563.00	8.48
Yough affairs	131,765.00	79,907.00	51,858.00	39.36
Health	7,209,382.00	6,736,466.00	472,916.00	6.56
Sports	248,668.00	182,101.00	66,567.00	26.77
Home Affairs	848,853.00	822,535.00	26,318.00	3.10
Media Bureau	351,194.00	322,836.00	28,358.00	8.07
Lands & Survey	3,702,678.00	3,295,494.00	407,184.00	11.00
Lands Committee	175,562.00	169,047.00	6,515.00	3.71
Dept. of Lands management	90,395.00	57,319.00	33,076.00	36.59
ICT	763,881.00	734,079.00	29,802.00	3.90
Fire & Rescue	414,165.00	338,349.00	75,816.00	18.31
Lands Transport	1,157,955.00	795,782.00	362,173.00	31.28
Mritime Transport	1,702,466.00	1,458,142.00	244,324.00	14.35
DCA	1,112,973.00	955,490.00	157,483.00	14.15
Justice - Secretariat	2,454,994.00	1,716,008.00	738,986.00	30.10
Judiciary	501,026.00	433,934.00	67,092.00	13.39
Boarder Control	225,736.00	197,583.00	28,153.00	12.47
Finance Secretariat	1,132,038.00	1,099,421.00	32,617.00	2.88
Finance - Public Debt	23,374,714.00	23,292,803.00	81,911.00	0.35
Bureau of Statistics	100,102.00	54,357.00	45,745.00	45.70
Finance- Other payments	33,961,521.00	26,110,505.00	7,851,016.00	23.12
Fisheries	1,456,798.00	1,363,356.00	93,442.00	6.41
<b>TOTAL</b>	<b>97,669,296.00</b>	<b>84,962,514.00</b>	<b>12,706,782.00</b>	<b>13.01</b>

4.2.6 The average total underspending by all departments thus comes to approximately \$ 13% of the appropriation.

#### 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:-
- a) Original budget provisions were either too inadequate or excessive under many sub-heads.
  - b) Due to lack of effective monitoring and control over expenditure, there were excess provision under a very large number of sub-heads after the close of the financial year. which had to be covered by Inter-Account Transfers of savings from other sub-heads under the same head in year 2013/2014.
  - c) 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.
  - d) 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 PROVISION

- 4.4.1 The original estimates of expenditure presented to Parliament in Appropriation bill for 2013-14 were too inadequate to meet the actual expenditure under certain sub-heads which ranges from 110.88% to 5.08% of the original budget provision.
- 4.4.2 As per the data provided to Audit the expenditure of 5 departments, as detailed below, exceeded by \$0.16 million than their authorised Budget Estimates 2013-14. The transport department had incurred an expenditure over and above 110.88% than the approved budget. The reasons for the increase was not available in the records.

Particulars	Budget Estimate 2013-14	Actual Expenditure \$	Excess Expenditure over and above Budget appropriation	Per centage
Foreign Affairs - New York	1,006,183.00	1,057,311.00	51,128.00	5.08
Women Affairs	74,035.00	84,590.00	10,555.00	14.26
Transport Secretariat	66,434.00	140,096.00	73,662.00	110.88
Correctional Services	360,256.00	366,976.00	6,720.00	1.87
Nauru Revenue Office	294,407.00	311,992.00	17,585.00	5.97
	<b>1,801,315.00</b>	<b>1,960,965.00</b>	<b>159,650.00</b>	

- 4.4.3 Audit considers that the above detailed excess spending of \$ 0.16 million is as illegal expense as it was spent over and above the appropriation bill.

**4.5 EXPENDITURE ON OVERSEAS MEDICAL TREATMENT**

- 4.5.1 The Budget of Health Department provided \$3.71 million under the sub-head 2475 Overseas Medical Treatment in 2013-14. The expenditure on this account had been less than the budget provision, as would be seen from the following table:

YEAR	ORIGINAL BUDGET	EXPENDITURE	EXCESS/ SHORT	PERCENTAGE
2013-14	3,710,000	3,668,604	41,396.00	1.12

- 4.5.2 The actual expenditure was thus resulted by 1.12% decrease on this sub-head.

**4.6 OVER EXPENDITURE**

**4.6.1 BUSINESS TRAVEL( 2075)**

Business Travel expenditure of the whole of government was exceeded the budgetary limit as per the statement submitted to us. Some departments, collectively, overspent the original budget provision by 4.39% against original provision of \$2,500,788.00 resulting in an excess spending of \$109,752/-. (The Actual spending as per Financial Statement was \$2,610,540 whereas as per the General Ledger/Trial Balance it was \$2,598,991/-.) The departments to which the excess expenditure incurred could not be tabulated as the GL and Financial Statement figures are not in agreement.

YEAR	ORIGINAL BUDGET	EXPENDITURE	EXCESS/ SHORT	PERCENTAGE
2013-14	2,500,788	2,610,540	109,752	4.39

**4.6.2 SUBSIDIES AND DONATIONS**

During the year, a sum of \$0.98 million has been distributed towards subsidies and donations to various parties. It includes Disability cash payout, Church donations, Donation to Tonga towards disaster relief, donation to various sports organizations, Donation to EHC, etc. The donations exceeded the original budget provision by 3.09%.

YEAR	ORIGINAL BUDGET	EXPENDITURE	EXCESS/ SHORT	PERCENTAGE
2013-14	955,030	984,552	29,522	3.09

- 4.6.3 Audit considers that the above detailed total excess spending of \$ 0.14 million is illegal expense as it was spent over and above the appropriation bill.

## 5. RESOURCE MANAGEMENT

5.1.1 The quantum of revenue and expenditure for the year 2013-14 has been dealt with Statement-A. It may be seen there from that the fiscal year ended with a revenue surplus of 7.14 Million. The revenue realised as compared to the Budget Estimates and the reasons therefor are explained in page 20, Statement 'C' 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 \$38,931,055.00 by the Treasury based on available data.

5.1.3 The current year Revenue deficit/surplus table is given as under:

YEAR	REVENUE EXCLUDING SALE OF ASSETS AND LOANS	EXPENDITURE	SURPLUS REVENUE
2013-14	95,467,644	86,923,480	8,544,164
2013-14 Donor fund operation loss		1,402,272	<b>Net Balance : 7,141,892</b>

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 Audit is unable to provide any comparison of previous years Revenue receipts due to lack of material evidence. The table below gives the position of Government Revenue for the current year:

YEAR	RECEIPTS FROM FISHERIES	RECEIPTS FROM RONPHOS	RECEIPTS FROM CIVIL AVILATION	DIVIDEND FROM OTHER SOEs	Amount in Million	
					OTHER RECEIPTS OF GOVT.	TOTAL
2013-14	19.90	5.95	3.93	0.29	65.40	95.47

### Going Concern:

The accompanying Annual Financial statement for the year 2013-14 have been prepared assuming that the Government will establish its fair net worth, i.e. its value of net Assets and Liabilities as on 31.6.2014. As discussed in 'Statement B' 2.9.3 of this report, the Government's net Liability exceeds its net Assets as at 31.6.2014. 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.



DEPARTMENT OF AUDIT  
CIVIC CENTRE, AIWO DISTRICT  
REPUBLIC OF NAURU  
Phone: 5573109

---

## **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 2014**

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 comprise 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 could not be verified as there was no audited accounts for prior years
2. Significant difference appears in Trial Balance – due to previous years errors
3. Fixed Assets purchases were recorded as Expenses
4. No confirmation/evidence to prove most of the Debtors balances
5. Difference appears in Annual Financial Statement and certain Ledger balances due to errors
6. 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.