



REPUBLIC OF NAURU

ANNUAL AUDIT REPORT OF THE AUDITOR GENERAL

(UNDER SECTION 11 OF THE AUDIT ACT 1973)

For the Year Ended 30th June 2017



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

Dated : 28th August 2020

Your Excellency,

I have examined the Annual Financial Statement of the Republic of Nauru Treasury Fund and the statement of Public Debt as at 30th June 2017, 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 2015-16 which was audited and report submitted to the parliament on 18th December 2018.

The governments' seriousness in maintaining accountability and transparency of the use of public funds has further fortified with the continued production of Financial Statements. Therefore, I commend the great efforts made by the whole team of the Treasury, particularly by Mrs. Karen Whitham, Dy. Secretary Treasury, Mr. Michael Wyatt, Reconciliation Advisor and Mr. Atunasia Baleimatuku, Management System Accountant, Treasury for the preparation of the Government Annual Financials 2016-17. However, this would not have been possible without the wholehearted support by the Minister for Finance, Hon. Martin Hunt M.P and Secretary for Finance, Ms. Novina Itsimaera and we are truly thankful to them 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 2017 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,

Manoharan Nair
Auditor General

**His Excellency the President, Hon. Lionel Rouwen Aingimea M.P.
Republic of Nauru
Central Pacific**



**DEPARTMENT OF AUDIT
CIVIC CENTRE, AIWO DISTRICT
REPUBLIC OF NAURU**


**AUDIT CERTIFICATE OF THE AUDITOR GENERAL
ON THE ACCOUNTS OF THE REPUBLIC OF NAURU
FOR THE YEAR ENDED 30TH JUNE 2017**

I have examined the Annual Financial Statement of the Republic of Nauru, Treasury Fund, Intergenerational Trust Fund and other related documents as at 30th June 2017, as certified by the Minister for Finance and transmitted to me under Section 10(1) of the Audit Act 1973.

In my opinion, subject to the comments made in the enclosed Audit Report, the Statements certified by the Minister for Finance are in accordance with the records maintained and reflect a true and fair view of the receipts and payments of the Republic.

The accounts certified by the Minister for Finance are annexed to the Audit Report.




**MANOHARAN NAIR
AUDITOR GENERAL**

28th August 2020
Nauru



**DEPARTMENT OF AUDIT
CIVIC CENTRE, AIWO DISTRICT
REPUBLIC OF NAURU**

INDEPENDENT AUDITORS REPORT

To: His Excellency the President. Hon. Hon. Lionel Rouwen Aingimea M.P

Report on the Republic of Nauru Whole of Government Financial Statements for the year ended 30th June 2017.

Pursuant to Section 10(1) of the Audit Act 1973, I have audited the accompanying Financial Statement of the Republic of Nauru, for the year ended 30th June 2017. These financial statement comprise the following statements for the year then ended, and a summary of significant accounting policies and other explanatory information

1. Statement of Receipts & Payments
2. Statement of Budget v/s Actual
3. Statement of Cash flows
4. Statement of Assets & Liabilities
5. Statement of Revenue V/s Budget
6. Statement of Expenses V/s Budget

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IPSAS Cash basis of accounting and as required under 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:

My responsibility is to express an opinion on these financial statements based on our audit. I conducted our audit in accordance with International Standards for Supreme Audit Institutions which is premised on the International Standard 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion:

There is significant difference appearing between FMIS and Financial Statement in revenue records. Account payable and Account receivable at the end of the year does not exist in the Financial Statement through there are evidences for such outstanding. Some of the External debts are also not considered along with the Liabilities. Scope limitation issued against four account heads due to non-receipt of satisfactory explanations

Qualified Opinion:

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the results of operations of Government of Nauru as at 30th June 2017.

Without qualifying my opinion, I draw attention to the management on the following matter(s) that relate to my responsibility in the audit of the financial statements.

Certain statutory requirements were not met, e.g. presentation of schedule of fixed assets (Audit Act 1973, Sec 10 (c), Statement of Govt. Loan fund (Audit Act 1973 Sec. 10(b) and loan paid to SOEs.

Other matters:

Under Audit Act 1973, it is my statutory duty to report cases of non-observances 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:

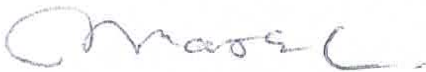
There is significant difference in revenue receipts between FMIS and Financial Statement.

Loan paid by Cash and also in kind to State Owned Enterprises such Eigigu Holdings and NUC were considered as expenditure instead of considering it as non-current Assets of Government.

Cash flow statement for the year 2016-17 has been prepared but it has errors in it.

Financial statements do not show correct figures for the prior year comparative information wherever presented.

Statement of all outstanding liabilities are not fully disclosed in the Financial Statements



MANOHARAN NAIR
AUDITOR GENERAL



Dated 28th August 2020

REPUBLIC OF NAURU

WHOLE OF GOVERNMENT ANNUAL FINANCIAL STATEMENT



Management Letter
Whole of Government Annual Financials 2016-17

This draft management letter is issued to Secretary for Finance, Government of Nauru for corrective actions and/or agreement to the findings and recommendations contained therein. The audit opinion shall be issued once the response to the Management letter is received from the Ministry of Finance and considered by the Department of Audit.

Audit of the Financial Statement of Govt. of Nauru FOR THE YEAR ENDED 30TH JUNE 2017

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INTRODUCTION

As per Section 10 of the Audit Act 1973, the financial statements of the Republic of Nauru are subject to audit by the Auditor General.

The financial statements for the year ending 30th June 2017 was submitted for audit on 21.12.2019. The audit of the same was completed and the purpose of this letter is to bring to the attention of the management the findings that were revealed during the audit.

SCOPE AND DETERMINATION OF RESPONSIBILITY:

The audit was conducted in accordance with the International Standard of Supreme Audit Institutions (ISSAIs). These standards require that we comply with ethical requirements and plan and perform the audit so as to obtain reasonable assurance that, in all material respects, fair presentation is achieved in the annual financial statements.

The audit includes:

Examination on a test basis of evidence supporting the amounts and disclosures in the financial statements;

Assessment of the accounting principles used and significant estimates made by management; and

Evaluation of the overall financial statement presentation.

The audit also included an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to our attention and are applicable to financial matters.

The matters mentioned in this management letter are therefore those that were identified through tests considered necessary for the purpose of the audit and it is possible that there might be other matters and/or weaknesses that were not identified.

The financial statements, maintenance of effective control measures and compliance with laws and regulations are the responsibilities of the Accounting Officer. Our responsibility is to express an opinion on these financial statements.

The audit findings which were identified during the course of the audit and our recommendations are included hereunder:

AUDIT RECOMMENDATIONS:

Our Recommendations to the Management is that:

- (a) Addresses comprehensively the scope limitation items and matters of material importance included in this draft management letter with utmost urgency and responsibility.
- (b) Provide schedule on Property, Plant & Equipment with correct impact on fair net assets value in accordance with depreciation policy.
- (c) Arrange to provide Bank balance confirmation from Bendigo Bank Agency to comply with audit requirements and also to verify the bank accounts/balances.
- (d) Prepares a well-structured asset register to capture existing assets, disposals, fully depreciated assets and acquisitions as also non-cash asset donations. Its 'fully depreciated working-assets' / 'charged off assets' may be tracked through Asset register in hard and soft copy forms for better internal control.
- (e) Establishes an accounting policy for accounting of non-cash donations, its valuation and include the same in financial statements.
- (f) Recognizes correct liabilities of GON by obtaining direct confirmation from the parties concerned and include the same in the financial statement to comply with Mandate.
- (g) Discloses its exact investment (original and current fair value) in the SOEs from which GON expects/receives dividends.
- (h) Advises the departmental heads across the GON to maintain proper accounting and financial records that could be retrieved over the next five years and that handing over/taking over of the functional charges be regulated through a well-laid down SOP.
- (i) Underscores the need to use the FMIS fully including the assets and liabilities modules and thereby establishes a robust system to retrieve all receipts and payments with supporting evidences.
- (j) Arranges in-house or outsources the internal audit function to ensure effectiveness and improvements in the financial internal controls with a view to assure on fair

All amounts are in Australian Dollar

presentation of financial statements and to perform tests of internal controls in other departments.

DETAILED AUDIT FINDINGS

Analysis of the accompanying Financial Statements 2016-17 and notes to accounts are grouped into four parts and its consideration of the management during the course of audit is provided as under:

Group (1):

Adjustments made to affected accounts from the prior year (2015-16) audit recommendations:

Prior year Financials statements were presented incomplete in all respects. The mandatory parts of the financial statements which reportedly prepared under the IPSAS Cash basis of accounting and Section 10 of the Audit Act 1973, namely the:

- Schedule of the fixed assets for the year with comparative details
- Government loan fund and trust fund showing receipts and payments
- Accounts receivables - were not included in the current year (2016-17) annual financials also.

To comply with the IPSAS Cash basis of accounting, all issues prevailing from the prior year Annual Financials (2015-16) have been eliminated from the current year (2016-17) annual financials to clean up the accounts and also to match with the Financial Information Management System (FMIS) so that a fresh accurate accounts could be drawn which should facilitate to produce the forthcoming accounts more accurately and clearly.

Management felt that it is impracticable to resolve the discrepancies existing between the General Ledger and the Bank Statement and also in other account heads (as there was no reconciliation), it would be appropriate to identify the errors and omissions against equity.

Since the 2016-17 General Ledger has been closed and it was not possible to make any entries/changes in to the ledger, all differences appearing has been adjusted outside the FMIS, hence, the figures provided in the financial statements are not matching with the FMIS ledger balances.

Following are the impact of some of the major changes appearing in the Financial Statements due to cleaning-up of the accounts other than Cash and Bank balances. Cash & Bank balances have been derived from the bank statements and NRO balances to maintain accuracy.

All amounts are in Australian Dollar

Account Head	2015-16	2016-17	Remarks
Current Assets :			
Debtors	13,053,350.00	-	Removed to comply with IPSAS Cash basis of accounting
Assets - Plant & Equipments	854,818.00	-	Removed to comply with IPSAS Cash basis of accounting
- Buildings	19,460,415.00	-	Removed to comply with IPSAS Cash basis of accounting
	33,368,583.00		
Current Liabilities:			
Trade creditors - Domestic Debts	10,591,852.00	-	Removed to comply with IPSAS Cash basis of accounting
Creditors - External debtors	6,842,000.00	-	Removed to comply with IPSAS Cash basis of accounting
Accounts payable	4,682,019.00	-	Removed to comply with IPSAS Cash basis of accounting
	22,115,871.00		
LIABILITIES:			
External Debtors (Loan/borrowings)	42,240,167.00	-	8.6 million written off; rest considered as contingent liability
Ronphos (unconsolidated)	2,402,913.00	-	

However, the domestic debts (Loans & Borrowings) have been considered, after reducing the net payments released, which has been consolidated at \$59,711,280 towards the following:

Bank of Nauru	:	34,516,211
Nauru Phosphate Royalties Trust	:	<u>25,195,069</u>
		<u>59,711,280</u>

Payment to Ronphos amounting to \$2,402,913 provided in the 2015-16 Annual Financials has not been considered as a legitimate debt, hence, removed from the current year Annual financials 2016-17.

Group 2:

Assessment of financial statements against IPSAS Cash basis:

The Financial Statements have been formulated to conform to IPSAS Cash basis and IFRS. Following issues have been noted while assessing the compliance of conforming to IPSAS Cash basis of Accounting.

- i. IPSAS 1.3.27 requires that the Financial Statements shall present information that is free from material error. Contrary to this, on the face of the financial statement, the following errors noted:

		<u>As per Financial Statement</u>	<u>Prior year</u> <u>Figures in Fin. statement</u>
		<u>2015-16</u>	<u>2016-17</u>
Note : 5	NRO Cash	194,421	194,170
	RON Reserve Statement	778,458	791,885

Management replied that the basis of the balances reflected within the 2015-16 Financial Statements are unknown, hence, a comparative balances shown have been taken from the NRO maintained cash book (following the last entry) as on 30th June 2016.

All amounts are in Australian Dollar

		<u>As per Financial Statement</u>	<u>Prior year</u> <u>Figures in Fin. statement</u>
		<u>2015-16</u>	<u>2016-17</u>
Note : 7	Govt. of Nauru Overseas Mission:		
	Permanent Mission of Nauru to the UN	124,820	120,467
	Embassy of Nauru in Taiwan	100,586	91,527

Management replied that the difference with the permanent mission to the UN is due to exchange rate difference calculation. And the amount of Embassy of Nauru in Taiwan equivalent to AUD100,586 excludes unrepresented cheques and deposits not yet banked, hence, the difference is appearing.

Note : 12	Non-Current Domestic Debt:		
	Bank of Nauru	34,519,549	34,516,211
	Nauru Phosphate Royalties Trust	26,865,764	25,195,069

Management replied that reconciliation in September 2019 of the BON payments; comparing FMIS and Bank Statement identified a slightly larger cumulative amount paid to account holder as at 30th June 2016, hence, the rectified amount is appearing in the 2016-17 financial statement. Regarding NPRT balance, the variance relates to the adjustments of debtor balance owing from NPRT.

IPSAS 1.5.3 permits that if an error is identified in respect of the previous period, the opening balance of cash is adjusted to correct the prior period error and the financial statements, including the comparative information for prior periods, is presented and if the error had been corrected in the period in which it was made. An explanation of the error and its adjustment is included in the notes. **However, audit noticed that there is no such explanation given in Notes to the Accounts.**

- ii. Disclosure of foreign currency exchange differences is required by IPSAS 1.6.5 as reconciling items between opening and closing cash balances for the financial year. Also disclosure of unrealized gains and losses from changes in foreign currency exchange rates at the balance date as required by IPSAS 1.6.8.

Disclosure has been made in Note 1 of the Financial Statement stating that Foreign Currency cash flows are converted into Australian Dollars using the exchange rate provided by Bendigo Bank. However, the amount of difference (gain/loss) is not reported in the financial statement.

Management clarified that a note will be included identifying that differences may arise due to foreign currency exchange rate changes, which have been provided under Note(1), however, the amount of the differences and the amount of any gains or losses cannot be ascertained.

All amounts are in Australian Dollar

- iii. Each component of the Financial Statements is required to disclose the presentation currency (AUD) and the level of precision (actual or '00s or '000s) as required by IPSAS 1.4.23. The Financial Statement Note 1 discloses on presentation of currency in AU\$ and all amounts are rounded to the nearest whole dollar. However, IPSAS 1.4.23 (d) requires that, for the proper understanding of the information presented, the presentation of currency should be displayed in each component.

Management clarified that each statement specifies (AU\$) and all amounts are rounded to the nearest whole dollar as specified in Note 1-Presentation currency. However, audit noticed that in certain components, particularly with the notes to accounts, , the requirement has not been met fully.

- iv. IPSAS 1.3.27 expects that the Financial Statements present information that is: (a). Free from material error. However, many of the comparative prior year figures are incorrect as detailed in page 7 and 8, (b). Timely. Contrary to this, Financial Statements for 2016-17 were submitted in December 2019. Audit Act 1973 requires that the financial statements should be submitted within 3 months from balance date. (c) Verifiable. However, many departments have not kept supporting documents for their revenues/expenses for 2016-17. Some balance sheet items also are not supported by verifiable documents.

Management replied that this issue will persist in the financial statements for the subsequent financial years also or until the Accounts and FMIS is streamlined.

All the recommendations have been discussed and considered by the management during the course of the Audit. **There were several findings and recommendations that are agreed to by the Management but are still included herein to document the issues noted as part of the work.**

Incomplete Financial Statements:

The Financial Statements submitted to us for audit are not complete in all respects. Some of the mandatory part of the Financial Statement such as:

(1) Cash flow statement:

Cash flow statement has been prepared for the first time to comply with mandatory reporting. In the initial submission it was not tallying with the prior year opening balances. However, after through reconciliation, the management rectified the errors except leaving a difference of \$248 which is appearing due to reduction in the Mission bank balances as at 30th June 2016.

*Prior year figures were not reconciled, huge difference was appearing between the FMIS balance and financial statements, hence, the management, after reconciling the bank and cash balances, decided to write off the difference appearing in the books of accounts.

All amounts are in Australian Dollar

(2) Schedule of Fixed Assets for the year with comparative details:

Schedule of Fixed Assets, as required under the Audit Act Sec.10(c) of the Audit, is not provided along with the Annual Financials. All asset purchases are considered as expenditure as GON has adopted IPSAS cash basis of accounting. However, to comply with the mandatory requirement it is necessary that an Asset Register is maintained and transmit to Audit along with the Annual Financial Statement. In the previous audit (2015-16), it was clarified by Treasury that assets valuation are put in place and will try to improve it in a later period; however Audit noticed that there is no further improvement carried out during the year 2016-17 also.

Management clarified that Schedule of Fixed Assets is not available as at 30.6.2016 showing movements.

(3) Government Loan Fund and Trust Fund:

Section 10(b) of the Audit Act requires that Government Loan Fund and Trust Fund showing receipts and expenditure in each case has to be presented along with the yearly statements. The Annual Financials 2016-17 provides detailed information about the Trust fund in Note 11 of the Annual Financial Statement.

Management replied that there is nothing recognized for the Government Loan Fund (as it is no longer active) however, domestic debts relating to BoN are reflected.

Statement of Changes in Equity:

The data provided in the Annual Financial Statement reads as follows:

Government Equity (Note 13) 2017-18 : \$(4,665,229)

The negative equity of \$44.12 million in the prior year annual financials has been reduced to \$(4.6 million) in the year 2016-17 particularly due to reduction/removal of the External Debt of \$42 million and also due to the impact of making adjustment of errors and omissions notified.

It was clarified that since it being impracticable to resolve the discrepancies existing between the General Ledger and Bank Statement, the net difference has been identified as errors and omissions and reflected against equity.

Since it was not possible to make any corrections in the FMIS, it is done outside FMIS and accordingly the figures are provided in the Financial Statement.

All amounts are in Australian Dollar

A sum of \$3,000,000 was included into the Equity as investment in SOE (Nauru Utilities Corporation) which facilitated to reduce the negative volume of equity initially. This \$3 million investment in NUC was disputed by Audit as it has again been considered as expenditure under Note 30, **Payment of GoN debts and Subsidies** of the Annual Financials. The error has been considered by the management but it was not possible to post any discrepancies to the General Ledger and 2016-17 General Ledger has been closed in FMIS. So, it is considered as a Donation/Grant to SOE under the expenditure side of the Annual Financials and removed from the Equity addition, which caused to increase the total Government Equity to \$(4,665,229) as at 30.6.2017. This has been clarified in the **Note 32** of the financial statement also.

Group 3:

Current Assets:

(a) Intergenerational Trust Fund: Note 11

This Trust fund set up in 2014 through and MoU between Nauru, Australia and Taiwan has a total contribution of \$32,335,400 as at 30th June 2017.

	2016/17	2015/16
INTEGENERATIONAL TRUST FUND (Nauru Trust Fund)	32,335,400	20,400,000

This Fund is invested in financial institutions. The Trust prepares its own financial statements. GON cannot withdraw any surplus or invested amount till year 2033.

Given the MOU conditions, the contribution of GON to the Trust Fund cannot be termed a current asset. Hence, Nauru's contribution to the fund amounting to \$32,335,400 has been considered as Non-Current Asset of the Government. Additional note has been provided under Note 11 of the Financial Statement with the opening and closing balance of the fund along with details of movement of the fund with respect to share contribution from Nauru, Australia, Taiwan, ADB and New Zealand, total amounts to \$52,954,400. The amount provided in the Financial Statement is the consolidated contribution of GON only.

(c) Registrars Trust Fund: Note : 10

RON maintains a Trust Bank Account with Bendigo Bank, which is managed by the Registrar of Courts, who holds this fund for meeting expenses towards upcoming court cases. Details of the fund have been provided under Note 10 of the financial statements. A sum of \$32,672 is deposited into the account as at 30th June 2017. This fund has been considered as Current Assets of the Government as Government is the sole holder of this Trust fund account. This fund is also not available or has a restricted use for GON.

All amounts are in Australian Dollar

(d) Debtors:

There are no debtors shown as at 30.6.2017 in the statement of Assets and Liabilities. The total debtor's balances of prior were \$13,053,350. There is no corresponding entry of receipt of this balance is found as such we could not vouch barring this Asset from the Annual Financials 2016-17.

It is clarified that since there was insufficient information available to substantiate the carried forward balances in the Financial Management Information System, a policy decision was taken to suspend all receivable till the time it is reconciled appropriately.

This includes Housing Loan paid to employees amounting to \$637,823, dues from Ronphos amounting to \$3,719,000, Security Camps reimbursable \$8,292,030, etc. Security Camp reimbursable is a running account, hence, majority of the funds have got reimbursed but since there is no sufficient information available to further scrutiny, these receivables has been removed from the Annual Financials 2016-17.

Management clarified that after through reconciliation and consideration of the receivables, it will be re-instated in the next Annual Financials, if found necessary.

IPSAS Cash basis of reporting does not require this however, Audit Act 1973 Section 10(c) requires that a statement of assets and liabilities of the Republic at the end of the financial year, the manner in which these assets are invested or held need to be presented.

(e) Non-Current Assets (Investment in State Owned Enterprises):

Although GON does not consolidate assets of SOEs, as there was insufficient information available to recognize the investments, during the current year a sum of \$3,000,000 was provided as investment in Nauru Utilities Corporation (NUC) towards contribution for purchase Generator. It was considered as an investment of GoN in NUC in the initial submission of the Annual Financials but after through scrutiny, it was decided to consider it as an expense of the Government under Payment of GON Debt and Subsidies. Details provided in Note 32 of the Financial Statement.

Besides, the Financial Statements have consolidated the financial results of Nauru Port Authority and Nauru Fisheries & Marine Resources Authority although these are Corporations established under an act of Parliament and functions under the Nauru Corporations Act and are therefore required to prepare separate financial statements and lay them before the Parliament after statutory audit along with separate Audit reports. Additional note disclosure is required to transparently bring

All amounts are in Australian Dollar

forth the above anomaly to the accounting policy with appropriate disclosure as to estimated amounts pertaining to these SOEs.

Subsidies/Debt Repayments to SOEs : Note : 32

In addition to the 3 million payments to NUC, during the year additional sum of \$1,435,000 have been paid to Eigigu Holding Corporation as Loan but this payment have been considered as expenditure and consolidated with Other Donations and subsidies in Note 30 of the Financial Statement instead of treating as non-current asset.

Management replied that Loans and investments in SOEs are not recognized by GON unless they are pass-through funds received from external parties.

(f) Development Fund (Donor Partner Bank Account: Note 6 and Note 34

The funds held in the following accounts have been verified and found to be in order. The total amount in all these accounts as at 30th June 2017 is \$12,203,711.

	2016/17	2015/16
DFAT Australia Bank Account	9,459,117	13,354,935
MFAT New Zealand Bank Account	1,020,382	665,269
Govt. of Japan Non-Project Grand	476,186	-
Various other Fund Accounts	1,248,027	1,816,453
	12,203,712	15,836,657

There were significant differences in this balance in the 2015-16 Annual Financials as there was indifference between FMIS data, bank statement and Financial Statement. These variances have now been rectified and the amount provided in the Financial Statement is the actual balance as at 30th June 2017.

However, Bendigo Bank Agency did not confirm the accounts and account balances held by GON with them till now irrespective of repeated follow-ups, hence we place Scope limitation on these balances.

(g) Government of Nauru Overseas Missions: Note 7

All overseas mission account balances has been reconciled and following are the amounts held by the Missions as at 30th June 2017.

All amounts are in Australian Dollar

	Balance as at 30.06.2017	Balance Prior year 2015-16
Consulate General of Nauru to Australia , Brisbane	625,801.00	438,634.00
High Commission of Nauru to Fiji, Suva	277,127.00	97,465.00
Permanent Mission of Nauru to the UN, New York	239,303.00	120,467.00
Embassy of Nauru in Taiwan, Taipei	102,201.00	91,527.00
	1,244,432.00	748,093.00

However, the prior year figures provided against Permanent Mission, UN and Embassy of Nauru in Taiwan disputes with the figures provided in the prior year Annual Financials. The figures given are \$124,820 for Permanent Mission UN and \$100,586 for Embassy of Nauru in Taiwan in the Annual Financials 2015-16.

Management replied that the exchange rates used for currency conversion during the completion of the 2015-16 Financial statement cannot be verified, hence, the exchange rate applicable on 30th June 2016 or the rate used by the Overseas Missions have been used, hence, the difference is appearing.

(h) Non-current Assets : Plant & Equipment and Buildings

The value of Plant & equipment carried forward from 2013-14 till 2015-16 has not included in the financial statement 2016-17 as there was no proper depreciation, additions or deletions took place since 2013-14. Purchases of furniture, motor vehicle, air conditioners, building construction, etc. during the financial year 2016-17 have been charged off to expenses without updating the total amount of non-current assets as required. So, the management felt that the figures are inappropriate to carry forward to the Annual Financial Statement 2016-17 as required under IPSAS 17.

Management reported that a full valuation of the Assets need to be carried out to determine the exact Assets, and its value, so that they could consider appropriate depreciation for all categories of assets and include any additions or deletions in future.

IPSAS 17.14 (b) requires that the cost of an item of Property Plant and Equipment is recognized as an asset if the cost or fair value of the item can be measured reliably. Since the fair value of assets held by the government cannot be reliably determined, management decided to remove the assets value from the Annual Financial Statement 2016-17 and consider reconstituting the same in a later date, after considering its re-valuation.

All amounts are in Australian Dollar

The above action contradicts with the primary requirement of preparation of Annual Financials of the Government under the prescribed law. Schedule 10 (c) of the Audit Act 1973 requires that a statement of the assets and liabilities of the Republic at the end of the financial year, the manner in which those assets are invested or held and the general heads in respect of which those liabilities are outstanding must be prepared and transmitted to the Auditor General within a prescribed time period as decided by the Parliament. So, this primary requirement under the law could not be considered at the time of preparing the Annual Financials 2016-17 due to the prevailing issues as discussed in point (h), paragraph one above.

Group 3:

CURRENT LIABILITIES:

Registrars of Trust Account:

RON maintains a Trust Bank account managed by the Registrar of the Courts to hold funds for upcoming or pending court cases. Its' been considered as an Asset of the Government under Current Assets till the time the funds are paid out/utilized but since the amount is earmarked for payment to third parties, the same has again been considered as a Liability of the government as at 30th June 2017.

Trade & Other Payables:

The Liabilities of the prior year such as Accounts Payable, Trade Creditors payable, Creditors-external debts, etc. are not considered as liability of the government during the financial year 2016-17. These liabilities were unable to be adequately substantiated from information contained within the Financial Management Information System (FMIS). The amounts provided in the prior years were taken from several sources such as PFTAC report and other reports, copies of the same is not available in the Finance Department. No conformation could be obtained against the balance amounts, due from all State Owned Enterprises and external organizations. So the management, to avoid any discrepancy, decided to exclude these balances from the Financial Statement 2016-17 and re-consider the same after through reconciliation and obtaining balance confirmation letters from the clients in the coming years.

This has been done in line with IPSAS Cash basis of reporting but Section 10(c) of the Audit Act requires that a statement of the assets and liabilities of the Republic at the end of the financial year, the manner in which those assets are invested or held and the general heads in respect of which those liabilities are outstanding must be prepared and transmitted to the Auditor General within a prescribed time period as decided by the Parliament. So, this prime requirement under the law has not been considered at the time of preparing the Annual Financials 2016-17.

Domestic Debts:

Bank of Nauru:

The obligation of the Government to pay deposits of BON account holders amounting to \$34,516,211 (\$34,519,549 prior year) has been considered as a legitimate debt of the government. There is a difference of \$3,338 appearing between the prior year figure and current year balance.

Management clarified that the balance used is based upon a preliminary reconciliation undertaken confirming payments to account holder with bank statement records rather than the FMIS. A further reconciliation of the BON will be undertaken which may result in new numbers being arrived at for 2016-17 and each of the subsequent financial years.

Nauru Phosphate Royalties Trust:

The Loan received from NPRT amounting to \$25,195,069 (\$26,865,764 prior year) is a static amount for the past few years and are not supported with any documents whatsoever. The reduction in this liability amounting to \$1,670,685 is not matched by corresponding payment of cash/bank payment.

Management replied that the difference is due to netting off the Debtor and Creditor balances specified in the Deloitte Bank of Nauru Liquidation Report which was not previously reflected in the NPRT (unconsolidated) balance in the Financial Statement 2015-16.

The rationale of bringing this amount to the Balance Sheet as Domestic Debts is also not known. As such, we place audit scope limitation on this outstanding balance amount.

Others:

In the previous financial year (2015-16), Loans and borrowings (Non-current Liabilities) net outstanding was \$106,028,393. Out of which Domestic debts was \$63,788,226 and External Debt was \$42,240,167.

After considering the net movement of \$4,076,946; the balance outstanding in Domestic Debt as at 30.06.2017 has been reduced to \$59,711,280 (Note 12).

However, out of the External debt amounting to \$42,240,16; \$8,621,800 has been written off by Exim Bank (Audit has received confirmation by the bank stating that as at 30th June 2017, there is Nil outstanding balance against the loan with them) and the remaining amount of 33,618,367 has been considered as a non-legitimate debt, hence, transferred to contingent liability.

All amounts are in Australian Dollar

Prior year (2015-16) Trade Creditors outstanding amounting to \$6.84 million has not been considered as liability of the Government for the financial year 2016-17. There is no explanation provided in the Notes to Accounts for excluding this liability. The rationale of excluding this from the Balance Sheet is also not known to Audit.

Contingent Liability: Note 14

Additional note (Note 14) has been given on Contingent Liability of the Government. The Firebird yen bond debt, which is estimated to AU\$ 48.25 million as at 30th June 2017, including interest payable on the initial outstanding. This has not been considered as a legitimate debt of the government as uncertainty still prevails on the valuation of the liability and the Government position to repay it.

Differences between Trial Balance (GL) and Financial Statement:

Since the Trial balance could not be generated in FMIS as some of the resources to the Annual Financials area kept outside the Accounting system, Audit did not verify the difference as it was not possible to get a system generated Trial Balance.

Payroll transactions:

The payroll transactions were reviewed with expectations that:

- (a) the transactions are recorded in the accounting period to which they relate to;
- (b) that the figures reflected in the Financial Statements match those in the General Ledger;
- (c) that the transactions are duly approved by authorized officers and
- (d) that the payment vouchers are correctly classified.

Our review could not be carried out as the payroll data was not fully available either from Treasury or HR department. HR provided hard copy of payroll 2016-17 from their system against the account head Local salary (2015); which have been reviewed with Treasury records and found to be accounted appropriately.

Details of the other account heads such as; Salary Expatriate (2020), Allowances-Staff Contract (2025), Overtime (2035), Recruitment (2045), HE Salary and Allowances (2010) and Salaries & Allowances MPs (2005) were not provided by HR irrespective of repeated follow-up. Under the circumstances, audit testing of payroll such as salary, leave salary, authorization, likely ghost employees, payment to new employees, payment to overseas staff, etc. could not be carried out.

However, Audit verified and found that except Overtime-Local (2035) all the other General Ledger figures and figures provided in the Financial Statement against Wages, Salaries and employee benefits (Note 27) are matching and correctly stated. The figures provided in the Note 27 are after removing the salary related expenses met through aid funding. All aid

All amounts are in Australian Dollar

funded expenses were consolidated and provided in the Annual Financial Statement under Note 34.

Brief particulars of salary and other related expenditure is given as under:

Recurrent Expenditure	Note	Amount as per General Ledger	Aid Fund expenditure deducted	Net Expenditure	Amount as per Financial Statement	Variance	Remarks
Salary - Local	27	14,917,458.47	90,515.87	14,826,943	14,826,942	0.60	Round off
Salary - Expatriate	27	8,315,899.38	626,407.74	7,689,492	7,689,492	-0.36	Round off
Allowances - Staff Contract	27	1,082,587.77	9,781.17	1,072,807	1,072,807	-0.40	Round off
Overtime - Local (2035)	27	339,108.57	210.00	338,899	339,609	-710.43	Round off
Recruitment (2045)	27	74,814.13	0	74,814	74,814	0.13	Round off
Salaries & Allowances MP's (2005)	27	1,067,428.67	0	1,067,429	1,067,429	-0.33	Round off
HE Salary & Allowances (2010)	27	115,416.66	0	115,417	115,417		Round off
TOTAL		25,912,714	726,915	25,185,799	25,186,510	- 711	

Thus, against Overtime local (2035) a sum of \$710 has been provided in excess in the financial statement. The actual expenditure is \$338,899 whereas in the financial statement it is \$339,609. **It has been explained to us that the difference is due to an inadvertent posting of overtime to revenue (A/c code 1405 - overtime recovery) which is transferred to Overtime Local, hence, the difference is appearing.**

Corrections in Statement : Comparative figures:

Some comparative figures provided in the financial statement 2016-17 is incorrect which have been notified to the Management. Some of the figures have been rectified but some are still pending for rectification.

Management clarified that there was errors in the prior year annual financials which have been rectified, hence, the difference appearing between 30th June 2016 and 1st July 2016. Details of the prior year error figures appearing in the financial statement 2016-17 is provided as under:

All amounts are in Australian Dollar

Particulars	Figures provided in 2015-16 Audited Financial statement		Comparative figures in 2016-17 Annual Financials		Difference
NRO Cash	Note 1	194,421	Note 5	194,170	- 251
RON Reserve Statement	Note 1	778,458	Note 5	791,885	13,427
Permanent Mission of Nauru to the UN	Note 1	124,820	Note 7	120,467	- 4,353
Embassy of Nauru in Taiwan (Taipei)	Note 1	100,586	Note 7	91,527	- 9,059
Bank of Nauru	Note 4 8	34,519,549	Note 12	34,516,211	- 3,338
Nauru Phosphate Royalties Trust	Note 8	26,865,764	Note 12	25,195,069	- 1,670,695

As stated in page 6 and 7 of this report, the management clarified that the difference is appearing due to foreign exchange rate difference, unpresented cheques, deposits not yet banked, offsetting debtor balance against creditor balance, etc. which was rectified in the current year. IPSAS 1.5.3 permits to rectify such errors. However, an explanation of the error and its adjustments are not included in the notes to accounts.

Review of internal controls surrounding Expenditure function:

The GON manages all payments for the whole of government Ministries/Departments through centralized system of FMIS located in the Ministry of Finance. Accordingly, payment vouchers are raised by individual departments, duly approved by the Head of the Department, and posted on the FMIS for approval of authorized signatory.

After Assessment, the Secretary for Finance or Chief Accountant/Dy. Secretary approves/authorizes payments less than \$1000 and all payments of more than \$1000 are authorized by the Minister for Finance. Upon approval, payment is released through EFT or cash/cheque by the Nauru Revenue Office (NRO)

Our test of controls showed following issues.

a. Incorrect classification of expense items:

Incorrect classification resulted in payments being accounted against incorrect natural accounts thus causing these accounts to be overstated and the correct ones being understated. Following errors, found in random audit test checks, are required to be adjusted to show correct balances for each of the affected accounts.

All amounts are in Australian Dollar

S.No.	Classification adopted	Classification ought to be adopted	Amount (\$)
1	Stores - 2135 - Freight charges paid (PV 1310/26.5.2017)	Expenses were for Freight Charges, hence correct classificaiton is 2350	150.00
2	Travel Staff - 2070 - Training Expenses paid (Pv 0074/26.7.16)	Expenses booked in Staff Travel, whereas it should have been classified as Training Expenses - 2040	5,146.00
3	Travel Staff - 2070 - Training Expenses paid (PV0101/26.7.16)	Expenses booked in Staff Travel, whereas it should have been classified as Training Expenses - 2040	5,146.00
4	Travel Staff - 2070 - Business Travel Expenses paid (PV0165/10.8.16)	Expenses booked in Staff Travel, whereas it should have been classified as Travel Business - 2075.	1,059.61
6	Travel Staff - 2070 - Business Travel Expenses paid (PV0165/09.8.16)	Expenses booked in Staff Travel, whereas it should have been classified as Travel Business - 2075.	1,625.00
7	Land Rental - 2155 - Training Expenses paid (PV0616/1.12.16)	Expenses booked under Land Rental, whereas it should have been classified as Training Expenses - 2040	1,871.80
8	Land Rental - 2155 - Training Expenses paid (PV0616/1.12.16)	Expenses booked under Land Rental, whereas it should have been classified as Training Expenses - 2040	1,871.80
9	Salaries Other Contracts - Expatriate - 2030 (PV No. 093/4.8.16)	Expenses booked under Salaries Other Contracts - Expatriate, whereas it should have been classified as House Rental 2155	5,004.00
10	Salaries Other Contracts - Expatriate - 2030 (PV No.139/28.8.16)	Expenses booked under Salaries Other Contracts - Expatriate, whereas it should have been classified as 2585 Rations	45,120.00
11	Salaries Other Contracts - Expatriate - 2030 (PV No.142/24.8.16)	Expenses booked under Salaries Other Contracts - Expatriate, whereas it should have been classified as 2585 Rations	11,550.00

- b. Incomplete documentation for payments: Audit noted few payments that are not supported by proper documentation (e.g. list of pension beneficiaries not signed).
- c. No PV attached against few payments (e.g. PD56822 Birth Claim (a/c code 2390) and PD 53434 Subsidies and Donations (a/c code 2615) and certain CLO payments.
- d. No Budget provision available to make certain payments, hence, Special project account used t as miscellaneous payment head e.g. (1) PV 113/8.11.16 daily refreshment (2) PV 16/21.7.16 hire of crane to backload containers, (3) PV 138/7.12.16 Hire of Forklift to backload container.

It is suggested that the pre-authorization assessment function is adequately resourced to ensure proper documentation in all cases.

All amounts are in Australian Dollar

Management clarified that some misallocation of expenditure has occurred during the year and also certain transactions might have approved without necessary support documents.

Group 4:

Income:

The total income for the year 2016-17 as per FMIS is \$152,284,502 whereas in the Annual Financial Statement a sum of \$145,537,150 only considered, thus leaving a net difference of \$6,747,352.

There is a donor income of \$5,355,271 during the year. After considering the Donor Income still there is a net difference of \$1,392,081 appearing between the financial statement and General Ledger.

According to the management the difference is appearing due to certain errors which shall be rectified after through reconciliation in the next financial year.

A quick reconciliation of the revenue difference is given as below:

Total Revenue 2016-17 as per General Ledger		152,284,502	
Less : Visa fee removed (Receivable)		12,158,983	Not considered as payment not recd. against invoices
Sub-Total		140,125,519	
Less Visa fee calculated in excess (99-9000-90000-1575)		- 55,650	Wrong posting to treasury fund
Sub-Total		140,181,169	
Less: Negative figure appearing in Ledger not considered (17-0000-00000-1405)		- 710	Wrong posting; Expense not revenue
Sub-Total		140,181,879	
Add Donor Income		5,355,271	As per Note 34
Total Income		145,537,150	
Total Revenue as per Financial Statement		145,537,150	

The total budgeted income was \$143,751,595 for the year 2016-17; whereas the total earning is \$145,537,150; thus making a net surplus of 1.24% over and above the projected income.

Recurrent Income : Income from SOEs

During the year there was no income reported from SOEs in the form of dividend or in any other form except Income from Fisheries which is considered as a direct income of the government as NFMRA remains as a department of GON though it is established as a Corporation.

All amounts are in Australian Dollar

Recurrent Income : Custom duties Note 15:

	2016-17 Actuals	2016-17 Revenue Budget	2015-16 Actuals
Custom Duties (Note 15)	16,487,328	17,071,841	17,951,992

Department of Customs does not maintain adequate system of filing of records and documents in support of the revenue being collected by them for the Government. We anticipated the department to provide sufficient evidence that the revenues are collected effectively. However, we could not get appropriate documents related to the financial year 2016-17 revenue collection of the department.

We have been informed by the Department of Customs that they only assess and do not actually collect custom duties. The process of collecting custom duties actually undertaken by NRO, hence, retrieval of information from FMIS would be the most relevant information.

In view of the non-availability of records to verify the customs revenue, we could not perform tests of transactions appropriately by linking the same with receipts at the NRO office. We therefore, place audit scope limitation to the entire amount appearing under customs duties.

Management clarified that the introduction of ASYCUDA (Automated System for Customs Data) may assist with the formulation and retention of custom data, used for generating duty notices.

Proceeds from Investment Activities:

A sum of \$1,132,400 is received as dividend from Digicel Nauru during the financial year which has consolidated as proceeds from investment activities.

Trade Activities : Visa Revenue (Note 18)

	2016-17 Actuals	2016-17 Revenue Budget	2015-16 Actuals
Trading Activities - Visa Revenue	22,697,604	29,576,680	24,808,083

There was a dispute on receipted income shown in the Financial Statement and actual receipts as per FMIS. As per FMIS, the receipted income is \$24,923,306 against account code 1580-Refugee processing Centre (RPC) resettlement a/c, whereas in the financial statement (Note 18) it was shown as \$12,754,323 thus leaving a net difference of \$12,158,983 between the FMIS figure and Financial Statement.

All amounts are in Australian Dollar

We have been told that a portion of the Visa income relates to invoices that have been raised during the year (account receivable) for which payment has not yet been received.

However, the receivable is not appearing in the non-current assets (receivables) of the Statement of Assets and Liabilities as it has not been considered as an income. This is to comply with IPSAS cash basis of accounting. However, Section 10 (c) of the Audit Act requires that assets held need to be included in the financial statements. We therefore place audit scope limitation to the entire amount appearing under trading activities – Visa Revenue.

Management clarified that the account receivable amount is included in the total revenue during the financial year; hence, this amount has been deducted under IPSAS Cash to reflect actual cash receipts. Likewise, as the cash receipts have been decreased by the amount of the Account receivable, the Accounts Receivable balance is not shown in the Statement of Assets & Liabilities.

Fishing License Income

	2016-17 Actuals	2016-17 Revenue Budget	2015-16 Actuals
Fishing Licenses	46,896,970	42,143,241	37,467,386

The total income provided against Fishing Licenses is \$46,896,970 during the financial year 2016-17. The actual income is 11.28% more (\$4,753,729) than the budgeted amount of \$42,143,241.

All invoices towards License fee are raised by NFMRA and the payment is directly deposited in to the Treasury Bank account. Treasury credits when payments received into the bank account and do not keep any record of invoices raised against this income in any manner. There is lack of co-ordination in reconciling this account between the Treasury and Fisheries department.

NFMRA does not maintain any records of receipts of payments. Since the invoices are raised manually, hence, there is no record control in the system, it was not possible to scrutinize whether all invoices are paid or any invoice is missed out or pending for payment.

Audit verified to the maximum possible extend and found that there were no invoices raised/available in records against the following payments received in the bank: Our efforts to get required information from Treasury/NFMRA went in vain.

Inv. No	Date	Period	Amount	Remarks
GJ009097	29.9.16	3	8,379,997.46	Parties to NRU Agreement
GJ009091	29.9.16	3	1,539,574.66	Forum Fisheries

All amounts are in Australian Dollar

Since required documents were not available for verification, audit could not verify the legitimacy of receipt of these payments.

Management clarified that there has been some consideration with regards to raising NFMRA invoices within the FMIS, however, the issue of currency (as invoices are raised in USD) impacting upon recording and reporting using AUD in the FMIS.

Other Financial issues :

Review of Budget against actuals:

GON Budget and Financial Statements are prepared on a comparable basis, in conformity with IPSAS Cash basis of accounting. Audit conducted a board review of budgeted amounts as revised against actuals for the financial year 2016-17 that reflects the following significant variance between the budget and actuals:

REVENUE - GON 2016-17 RECONCILIATION:				
Department	Revised Revenue Budget	Actual Received	Difference	Remarks
03 Chief Secretary	127,350	279,885.30	152,535.30	Due to payroll related mis revenue increase
07 GON Warehouse	270,000	70,962.62	- 199,037.38	Decrease due to less activity
11 Finance Seretariat	280,000	913,927.00	633,927.00	Tugboat hire charges from Vital; collected and credited to Dep11 under misc revenue
41 Police	40,000	91,158.00	51,158.00	Due to increase in Police Clearance income
43 Justice Secretariat	134,000	262,179.16	128,179.16	Increase in License fee, Corporation registration fee and Extra income of Curator fee
44-Judiciary	15,000	59,100.70	44,100.70	Court fine fee charged
45 Border Control	2,960,000	11,517,017.00	8,557,017.00	RPC Visa fee revenue which was not budgeted posted to Head 42 now posted back to Head 45

All amounts are in Australian Dollar

Department	Revised Revenue Budget	Actual Received	Difference	Remarks
61 Health	35,200	25,852.50	- 9,347.50	Decrease is due to less receipt of activity income. Only approx 73% of activity income collected in all categories such as Visa fee, Food Handler, Spectacle and medical service
62 Sports	1,000	-	- 1,000.00	Tent Hire did not happen. Nil activity
83-Media Bureau	40,000	7,322.00	- 32,678.00	Decrease due to less number of receipt of advertisements.
91 Department of Transport	3,257,319	1,839,095	- 1,418,224	?
92 Lands Transport	-	27,545.50	27,545.50	Nil amount budgeted but Insurance fee, and registration fee collected during the year
94 DCA	-	765,578.36	765,578.36	Nil revenue projected in budget but collected Air Navigation Charges, Rental fee, Misc revenue, service fee, etc.
95 ICT	1,944,154	2,917,435.34	973,281.34	Increase is mainly due to more Telecom tax receipt from Digicel than projected

Outstanding audit observations seeking management response: SCOPE LIMITATION

We have issued 18 preliminary audit observations (POMs) and several Requests for Information memos, e-mail queries, etc. seeking management response. Most of the POMs were responded by the Finance Department very promptly. Some of the issues with Salaries division, Customs Department and Fisheries department could not be resolved due to lack of information available with them. As such we are not in a position to conclude some of the revenue issues that have financial implications, systems oriented controls management or the accuracy of the financial information included in the financial statements. These are subject to review for inclusion or exclusion from the management letter.

Going Concern:

1. The accompanying Annual Financial statement for the year 2016-17 have been prepared assuming that the Government will establish its fair net worth, i.e. its value of net Assets and Liabilities as on 31.6.2017. Though there is considerable reduction, the Government's net Liability exceeds its net Assets as at 31.6.2017. 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 \$3.4 million though there was excess income of approximately 1.78 million than the budgeted revenue. Ways to cut back the expenses within the income has not adopted. It lead to financial stress and also resulted in raising the Republic's net deficit.
3. Certain department's inability to keep proper records, 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 and also system related errors/issues.

SUMMARY STATEMENTS AND OVERALL CONCLUSIONS

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the international Accounting standards (IPSAS Cash) read with International Financial Reporting Standards (IFRS) and 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.

Overall Conclusions:

The anomalies that persisted in the Accounting system and prior year annual financials have been ratified or removed up to certain extent with an intention to clean up the accounts in the forthcoming years. Compared to the prior years, volume-wise, the matters notified by the Auditors during the Audit of 2016-17 Annual Financials are very less. Because of the significance of the matters and materiality of the amounts under audit observation as described in the draft management letter above, we have placed scope limitation on very

All amounts are in Australian Dollar

few issues as also queried the accuracy of certain balances and presentation matters that must be aligned to IPSAS cash standards and comply with our Mandate.

If the management does not comprehensively provide information on the issues contained in the draft management letter, and revise the financial statements; we will be constrained to express a 'Qualified' Opinion' on the financial statements.



MANOHARAN NAIR
AUDITOR GENERAL

Dated : 28th August 2020

REPUBLIC OF NAURU
WHOLE OF GOVERNMENT



AUDITED FINANCIAL STATEMENTS
For the year ended 30 June 2017

STATEMENT OF RESPONSIBILITY

In accordance with Section 10 of the *Audit Act 1973*, we are pleased to present the Financial Statements of the Government of Nauru for the year ended 30 June 2017.

Basis of Work

We hereby declare that:

- We have been responsible for the preparation of these Financial Statements and the judgments made in them;
- We are responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurances as to the integrity and reliability of financial reporting;
- In our opinion, these financial statements fairly reflect the financial position and operations of the Government of Nauru for the year ended 30 June 2017.

Limitation of Information and Work

The 2016-17 Financial Statements have been prepared consistent with IPSAS Cash Basis reporting, and do not include the full suite of statements required by the *Audit Act 1973*, including a full statement of assets and liabilities. Due to deficiencies in record keeping and the quality of the information in the financial management information system (FMIS), it has not been possible to ascertain a true and fair representation of value of the Republic's assets and liabilities for 2016-17.

There is a general limitation on prior year information, reflecting deficiencies in record keeping and the quality of the information in the FMIS. Prior year balances cannot be generally verified or relied upon, and are therefore not generally included.

Given the unreliability of prior year FMIS balances, the statements have been prepared on the basis of documented bank statements for opening and closing balances. Errors and omissions relating to the mismatch between the FMIS and cash balances in the bank statements have been recorded against Equity.



Hon. Martin Hunt MP
Minister for Finance



Novena Itsimaera
Secretary for Finance

On 20 December 2019, the Minister for Finance authorized the financial statements to be issued to the Auditor General for necessary Audit and submission of his report as required under section 11(1) of the *Audit Act 1973*.

FINANCIAL STATEMENT OF GOVERNMENT OF THE REPUBLIC OF NAURU
FOR THE YEAR ENDED 30 JUNE 2017

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FOREWORD

The 2016-17 financial statements of the Republic of Nauru have been presented in accordance with the *Public Finance (Control and Management) Act 1997* and the *Audit Act 1973* (including any subsequent amendments), with direct reference to the budget estimates of Government. Presentation and certain disclosures have also been made consistent with the International Public Sector Accounting Standard (IPSAS): *Financial Reporting under the Cash Basis of Accounting* (IPSAS Cash) that came into effect on 1 January 2019.

As part of the Public Financial Management Reform Plan, the Government has committed to producing financial statements in accordance with International Public Sector Accounting Standards. These statements are the first to be produced as part of the implementation of IPSAS under the Cash Basis of Accounting for Nauru. It is a transitional document, and does not include a comparative analysis to prior year accounts, as they are not available.

Prior year information is not available due to poor record keeping, hence an inability to substantiate the balances as reported in prior year accounts ending 30 June 2016. A policy decision has been made to use substantiated bank balances as the basis of preparing these financial statements for 2016-17, with a view to progressively improving record keeping and reconciliations for future years.

The accounts of Government have not been consolidated with the financial statements of other controlled entities.

The production of the 2016-17 financial statements marks a significant milestone for Nauru, and provides a foundation for more reliable financial reporting in the future.

These statements were submitted to Auditor-General of the Republic of Nauru for audit purposes on 20 December 2019. These statements reflect the final statements as adjusted following completion of the audit review in August 2020.

Department of Finance
August 2020

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF CASH RECEIPTS AND PAYMENTS
FOR THE YEAR ENDED 30 JUNE 2017

		2016 / 2017	2016 / 2017
		Budgeted	Actual
(AUD - \$ - rounded to nearest dollar)		Receipts/	Receipts/
	NOTE	(Payments)	(Payments)
RECEIPTS			
<i>Taxation</i>			
Income Tax		9,000,000	10,130,181
Business tax		1,374,200	2,458,868
Customs Duty	15	17,071,841	16,487,328
Other taxes		1,000,000	1,774,529
<i>Donations, Grants and Other Aid</i>	16	4,288,000	11,498,728
<i>Capital Receipts</i>			
Proceeds from investment activities		1,981,654	1,132,400
<i>Fees, fines, penalties and licenses</i>			
Fishing Licenses		42,143,241	46,896,970
Other Fees, fines, penalties and licenses	17	1,076,100	1,100,291
<i>Trading Activities</i>			
Visa Revenue	18	29,576,680	22,697,604
Receipts from Other Trading Activities	19	4,978,801	3,649,824
<i>Other receipts</i>	20	31,261,078	27,710,428
Total Receipts		143,751,595	145,537,150
PAYMENTS			
<i>Operations</i>			
Administrative Expenses		(865,743)	(1,190,956)
Agricultural & Animal Supplies/Services		(26,600)	(18,782)
Awards & Social Assistances	21	(22,135,536)	(21,090,165)
Communications		(1,384,439)	(1,189,716)
Consultant & External Services	22	(27,013,011)	(27,311,259)
Drugs, Medical Supplies and Services	23	(7,895,362)	(7,130,859)
Freight Charges		(360,162)	(340,000)
Fuel, Oil and Lubricants for Vehicle		(1,162,842)	(7,563,194)
Membership fees and Subscription		(941,464)	(793,235)
Rations		(149,657)	(126,890)
Rental Expense	24	(13,062,936)	(11,372,717)
Retirement Benefits & Social Security	25	(3,280,034)	(3,244,177)
Supplies & Consumables, Printing and Photocopying Service		(1,036,375)	(784,155)
Travel & local transportation	26	(5,993,142)	(5,478,960)
Utilities		(2,656,286)	(2,496,141)
Wages, salaries and employee benefits	27	(27,363,899)	(26,581,805)
<i>Capital Payments</i>			
Purchase/construction of plant and equipment	28	(5,286,524)	(3,889,060)
Repair & Maintenance Expenses	29	(3,988,883)	(3,407,410)
<i>Transfers</i>			
Grants to Statutory bodies, Sports and Federations		(56,653)	(84,056)
Payment of GoN debts and Subsidies	30	(12,914,574)	(4,615,409)
Intergenerational Trust fund	31	(11,935,400)	(11,935,400)
Donor Project Expenditures	34	(106,396)	(8,299,917)
<i>Other payments</i>		(500,000)	(26,165)
Total Payments		(150,115,917)	(148,970,428)
Increase/(Decrease) Cash		(6,364,323)	(3,433,279)
Cash beginning of year	4, 5, 6, 7,	0	30,250,907
<i>Errors and Omissions</i>	13	0	(6,340,628)
Cash at end of year	4, 5, 6, 7,	0	20,477,000

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
FOR THE YEAR ENDED 30 JUNE 2017
(Classification of Payments by Function)

(AUD - \$ - rounded to nearest dollar)	Actual Amounts	Final Budget	Supplementary Budget Adjustments	Original Budget	Difference: Final Budget & Actual
CASH INFLOWS					
Income Tax	10,130,181	9,000,000	(2,800,000)	11,800,000	1,130,181
Business tax	2,458,868	1,374,200	(625,800)	2,000,000	1,084,668
Customs Duty	16,487,328	17,071,841	(2,889,200)	19,961,041	(584,513)
Other taxes	1,774,529	1,000,000	0	1,000,000	774,529
Donations, Grants and Other Aid	11,498,728	4,288,000	0	4,288,000	7,210,728
Proceeds from Investment activities	1,132,400	1,981,654	0	1,981,654	(849,254)
Fishing Licenses	46,896,970	42,143,241	8,379,900	33,763,341	4,753,729
Other Fees, fines, penalties and licenses	1,100,291	1,076,100	0	1,076,100	24,191
Visa Revenue	22,697,604	29,576,680	0	29,576,680	(6,879,076)
Receipts from Other Trading Activities	3,649,824	4,978,801	0	4,978,801	(1,328,977)
Other receipts	27,710,428	31,261,078	10,735,300	20,525,778	(3,550,650)
Total Receipts	145,537,150	143,751,595	12,800,200	130,951,395	1,785,555
Finance	(51,145,173)	(52,953,010)	(17,430,700)	(35,522,310)	1,807,837
Education	(15,702,971)	(9,875,321)	0	(9,875,321)	(5,827,650)
Health	(13,467,016)	(13,816,175)	(1,000,000)	(12,816,175)	349,159
Chief Secretariat	(11,817,901)	(11,968,898)	0	(11,968,898)	150,997
Land Management, Survey, Land Transport	(10,992,581)	(11,690,807)	0	(11,690,807)	698,226
Ministerial	(11,051,027)	(11,079,986)	(100,000)	(10,979,986)	28,959
Multicultural Affairs	(7,894,072)	(10,568,284)	0	(10,568,284)	2,674,212
Public Order/Safety and Defence	(8,088,661)	(9,038,248)	0	(9,038,248)	949,587
Environmental Affairs	(3,152,084)	(3,006,414)	(158,000)	(2,848,414)	(145,670)
Recreational, Cultural and Religion	(4,902,603)	(4,645,476)	0	(4,645,476)	(257,127)
Foreign Affairs and International Trade	(4,154,700)	(4,916,575)	(607,600)	(4,308,975)	761,875
Communication and ICT	(1,842,920)	(1,851,508)	0	(1,851,508)	8,588
Other Ministries	(4,758,719)	(4,705,215)	(238,900)	(4,466,315)	(53,504)
Total Payments	(148,970,428)	(150,115,917)	(19,535,200)	(130,580,717)	1,145,489
NET CASH FLOWS	(3,433,278)	(6,364,322)	(6,735,000)	370,678	2,931,044

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF CASH FLOWS (EXCLUDING CONTROLLED ENTITIES)
FOR THE YEAR ENDED 30 JUNE 2017

(AUD - \$ - rounded to nearest dollar)

		Actual Controlled by the Government
	NOTE	2016 / 2017
Cash flows from operating activities		
<i>Receipts</i>		
Income Tax		10,130,181
Business tax		2,458,868
Customs Duty	15	16,487,328
Other taxes		1,774,529
Donations, Grants and Other Aid	16	11,498,728
Proceeds from Investment activities		1,132,400
Fishing Licenses		46,896,970
Other Fees, fines, penalties and licenses	17	1,100,291
Visa Revenue	18	22,697,604
Receipts from Other Trading Activities	19	3,649,824
Other receipts	20	27,710,428
<i>Payments</i>		
Administrative Expenses		(1,190,956)
Agricultural & Animal Supplies/Services		(18,782)
Awards & Social Assistances	21	(21,090,165)
Communications		(1,189,716)
Consultant & External Services	22	(27,311,259)
Donor Project Expenditures		(8,299,917)
Drugs , Medical Supplies and Services	23	(7,130,859)
Freight Charges		(340,000)
Fuel, Oil and Lubricants for Vehicle		(7,563,194)
Grants to Statutory, Sports and Federations		(84,056)
Membership fees and Subscription		(793,235)
Others		(26,165)
Rations		(126,890)
Rental Expense	24	(11,372,717)
Retirement Benefits & Social Security	25	(3,244,177)
Supplies & Consumables, Printing and Photocopying Service		(784,155)
Travel & local transportation	26	(5,478,960)
Utilities		(2,496,141)
Wages, salaries and employee benefits	27	(26,581,805)
Net Cash flows from operating activities		20,414,001
Cash flows from investing activities		
Investing Receipts	31	(11,935,400)
Capital Expenditure	28 / 29	(7,296,470)
Receipts from Lending & On-Lending	30	(4,615,409)
Net Cash flows from operating activities		(23,847,279)
Net cash inflows before financing		(3,433,279)
Cash flows from financing activities		
Proceeds from borrowings		0
Repayment of borrowings		0
Net Cash flows from financing activities		0

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF CASH FLOWS (EXCLUDING CONTROLLED ENTITIES)
FOR THE YEAR ENDED 30 JUNE 2017

(AUD - \$ - rounded to nearest dollar)		Actual Controlled by the Government 2016 / 2017	
	NOTE		
Cash flows from financing activities (cont...)			
Net increase/(decrease) in cash and cash equivalents			(3,433,279)
Cash and cash equivalents at the beginning of the period			30,250,907
Transaction (Prior year adjustment) booked directly to equity	13		(6,340,628)

Cash and cash equivalents at the end of the period			20,477,000
			=====

The cash flow also includes other budgetary cash flows including from Trust and donor projects.

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF ASSETS AND LIABILITIES
FOR THE YEAR ENDED 30 JUNE 2017

(AUD - \$ - rounded to nearest dollar)

NOTE

2016 / 2017

ASSETS - CASH & EQUIVALENT

Current assets

Government Bank Accounts	4	3,905,270
NRO Cash on Hand & RON Reserve Cash	5	1,770,228
Donor Partner Bank Account	6	12,203,711
Embassy Bank Account	7	1,244,432
Bendigo Agency Cash Holding Account	8	1,353,358
GON Procurement Imprest Account	9	2,233,651
Registrars Trust Account	10	32,672
Total Current Assets		<u>22,743,323</u>

Non-Current Assets

Intergenerational Trust Fund	11	32,335,400
Total Non Current Assets		<u>32,335,400</u>

TOTAL ASSETS

55,078,723

LIABILITIES

Current liabilities

Registrars Trust Account	10	32,672
Total Current Liabilities		<u>32,672</u>

Non-current liabilities

Domestic Debts	12	59,711,280
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TOTAL LIABILITIES

59,743,952

EQUITY

13 (4,665,229)

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT
FOR THE YEAR ENDED 30 JUNE 2017
(Classification of Payments by Economic Nature)

(AUD - \$ - rounded to nearest dollar)	Actual Amounts	Final Budget	Original Budget	Ratio Final Budget to Actual
Administrative Expenses	(1,190,956)	(1,360,095)	(1,180,441)	88%
Agricultural & Animal Supplies/Services	(18,782)	(26,600)	(26,600)	71%
Awards & Social Assistances	(21,090,165)	(22,135,536)	(22,780,500)	95%
Communications	(1,189,716)	(1,384,439)	(1,418,766)	86%
Consultant & External Services	(27,311,258)	(28,063,011)	(13,142,997)	97%
Drugs, Medical Supplies and Services	(7,130,859)	(7,481,503)	(5,779,803)	95%
Freight Charges	(340,000)	(340,000)	(308,700)	100%
Fuel, Oil and Lubricants for Vehicle	(7,563,194)	(1,162,842)	(1,873,930)	650%
Membership fees and Subscription	(793,235)	(941,464)	(975,652)	84%
Rations	(126,890)	(139,207)	(125,785)	91%
Rental Expense	(11,372,717)	(13,062,936)	(13,831,849)	87%
Retirement Benefits & Social Security	(3,244,177)	(3,280,034)	(3,012,104)	99%
Supplies & Consumables, Printing and Photocopy	(784,155)	(1,030,890)	(1,100,761)	76%
Travel & local transportation	(5,478,960)	(5,993,142)	(5,105,415)	91%
Utilities	(2,496,141)	(2,653,286)	(2,377,083)	94%
Wages, salaries and employee benefits	(26,581,805)	(27,363,899)	(28,552,252)	97%
Purchase/construction of plant and equipment	(3,889,060)	(5,286,524)	(4,823,961)	74%
Repair & Maintenance Expenses	(3,407,410)	(3,988,883)	(2,881,291)	85%
Grants to Statutory bodies, Sports and Federation	(84,056)	(56,653)	(56,653)	148%
Payment of GoN debts and Subsidies	(4,615,409)	(11,864,574)	(9,220,174)	39%
Intergenerational Trust fund	(11,935,400)	(11,935,400)	(10,400,000)	100%
Donor Project Expenditures	(8,299,916)	0	0	0%
<i>Other payments</i>	(26,165)	(565,000)	(1,606,000)	5%
TOTAL EXPENDITURE	(148,970,428)	(150,115,917)	(130,580,717)	99%

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Basis of Preparation

The financial statements have been prepared in anticipation of the eventual full adoption of International Public Sector Accounting Standard (IPSAS): Financial Reporting under the Cash Basis of Accounting (Cash Basis IPSAS) that came into effect on 1 January 2019.

The financial statements do not have comparative figures from the prior year as there is insufficient information available to substantiate the carried forward balances. A policy decision was taken to use bank statement and cash on hand balances as the basis of reporting, as various elements of the financial statements were unable to be adequately substantiated from information contained within the financial management information system. The resulting discrepancy in cash between Receipts less Payments and the Opening and Closing cash balances relates to these unsubstantiated amounts which has been reflected within the Change in Equity (Note 13).

Additional financial statements have been prepared pursuant to the Section 10 of the Audit Act 1973 (including any subsequent amendments) which requires the Minister responsible for the public accounts of the Republic to transmit certain statements and accounts to the Office of the Auditor General. These additional statements and accounts are reflected in the Appendices to these Financial Statements.

Reporting Entity

The financial statements are for the national government of the Republic of Nauru as represented by the Treasury Fund. The financial statements encompass all public moneys, public property, income, expenditure, assets and liabilities of the Republic received held or disbursed whether within or outside Nauru as specified in the Public Finance (Control and Management) Act 1997 (including any subsequent amendments). A listing of all government departments (Heads) that are included within the Treasury Fund are identified within the Statement of Treasury Fund - Summary, with details in the Appendices.

Government activities include the provision of health, education, law & justice, social protection, housing, recreational, cultural and general public services and economic management to, and on behalf of citizens undertaken by Government Departments including foreign diplomatic posts.

Statutory bodies such as the National Fisheries and Marine Resources Authority, Nauru Electoral Commission and the Port Authority of Nauru, are included in these financial statements.

State Owned Enterprises (SOEs) are not included in these financial statements. SOEs include Republic of Nauru Phosphate Corporation (Ronphos), Nauru Rehabilitation Corporation (NRC), Eigigu Holdings Corporation (EHC), Nauru Utilities Corporation (NUC), and Nauru Air Corporation (NAC).

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Other statutory bodies that are not included in these financial statements – are the Nauru Phosphate Royalties Trust (NPRT) and the Agency of Bendigo and Adelaide Bank, which, although associated with Government, are not undertaking the delivery of services as a government function.

Presentation Currency

The presentation currency is Australian dollars (AUD - \$) and all monetary values are rounded to whole dollars, unless mentioned otherwise.

Foreign currency cash flows are converted to/from Australian dollars using the exchange rate provided by the Bendigo and Adelaide Bank – Agency on the day of the transaction or when funds are transferred.

2. Original and Final Approved Budget and Comparison of Actual and Budget Amounts

The approved budget is developed on the same accounting basis (cash basis), same classification basis, and for the same period (from 1 July 2016 to 30 June 2017) as for the financial statements. It encompasses the same entities as the consolidated financial statement – these are identified in Reporting Entity above.

The original budget was approved by the Annual Appropriation Act on 9 June 2016 and net supplementary appropriations of (\$6,735,000) were approved through the year by respective Supplementary Appropriation Acts as follows:

<i>Bill</i>	<i>Date</i>	<i>Change in Revenue (AUD)</i>	<i>Change in Expenditure (AUD)</i>
Supplementary 1	5 September 2016	Nil	Nil
Supplementary 2	3 November 2016	11,865,200	17,761,300
Supplementary 3	23 December 2016	935,000	1,592,000
Supplementary 4	21 March 2017	Nil	181,900
		12,800,200	19,535,200

The changes in original versus final budget figures reflect either supplementary appropriations or reallocation of funds within Heads through inter-sub head transfers (ISHTs). The movements were required throughout the year to accommodate Government priorities.

3. Donations, Grants and Other Aid

Cash receipts during the period included donations, grants and other aid provided by individual multilateral and bilateral donor agencies and non-governmental organisations; co-operative financing facilities established by such organisations; regional agencies (such as the Regional Fisheries Marine Organisation) and donations from charities, corporations and private individuals.

External assistance is recognized at the time of receipt. Aid funding received from donor agencies for projects in Nauru is reflected as income within the individual donor fund account, distinctly separate from the Government Treasury Single Account.

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

During 2016-17, the Government of Nauru received goods and services (in kind) from donors and other contributors. This assistance included goods such as office equipment, medical equipment, investment in major infrastructure projects, local staff training, travel, workshop support, capacity building and other services such as technical assistance. These grants in kind are not generally recognized in these financial statements.

The amount of donations, grants and other aid of \$11,498,728 does not include aid received during the reporting period in the form of the proceeds of loans. The proceeds of any aid received during the period in the form of loans are included in the amount of borrowings presented as a separate line item in the Statement of Cash Receipts and Payments.

2016 / 2017

4. Cash at Bank

Cash at Bank are funds held in bank accounts with Bendigo and Adelaide Bank based in Australia. Transacting on these accounts is undertaken either via online banking or across the counter at the Bendigo Agent on island in Nauru

	<i>Balance 30 June 2016</i>	<i>Movement</i>	<i>Balance 30 June 2017</i>	
Treasury Operating Account	2,212,763	(631,399)	1,581,364	
Treasury Receipting Account	9,474,124	(7,188,915)	2,285,209	
GON TT Bank Account	<u>0</u>	<u>38,698</u>	<u>38,698</u>	
	11,686,887		3,905,270	<u><u>3,905,270</u></u>

5. Cash on Hand

NRO Cash on Hand

The NRO Cashier receives cash over the counter as income for the provision of government goods/ services and releases cash payments (upon presentation of Treasury cheques) to government suppliers for goods provided/services rendered and to other beneficiaries.

RoN Reserve Cash

RoN Reserve Cash is used to maintain the Bendigo Agency Cash Float (\$500,000 daily threshold) by accepting or releasing cash to meet the threshold, as well as, to replenish the Automatic Teller Machines (ATMs) on-island. The reimbursement of cash withdrawn from the ATMs is deposited into the Treasury Operating Account held with the Bendigo and Adelaide Bank in Australia.

	<i>Balance 30 June 2016</i>	<i>Movement</i>	<i>Balance 30 June 2017</i>	
NRO Cashbook	194,170	104,393	298,563	
RoN Reserve Statement	<u>791,885</u>	<u>679,780</u>	<u>1,471,665</u>	
	986,055		1,770,228	<u><u>1,770,228</u></u>

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

6. Development Partner Funds

2016 / 2017

Development Partner funds are held in bank accounts with Bendigo and Adelaide Bank based in Australia. These funds are maintained separately as Official Development Assistance (ODA) and used to reimburse Government of Nauru expenditure incurred in implementing development partner specific projects. These funds may have a restricted use for GoN.

	<i>Balance</i> <i>30 June 2016</i>	<i>Movement</i>	<i>Balance</i> <i>30 June 2017</i>	
DFAT Australia Bank Account	13,354,935	(3,895,817)	9,459,117	
MFAT New Zealand Bank Account	665,269	355,113	1,020,382	
Development Fund Bank Account (Varic	1,816,453	(568,427)	1,248,026	
Government of Japan Non Project Grant	<u>0</u>	<u>476,186</u>	<u>476,186</u>	
	15,836,657		12,203,711	<u>12,203,711</u>

7. Government of Nauru Overseas Missions

The Government of Nauru overseas missions maintain bank accounts to fund day-to-day operations abroad. Funds in these bank accounts are held in Australian dollars and/or other foreign currencies and converted to an Australian dollar (AUD) equivalent for financial statement purposes as at 30 June

	<i>Balance</i> <i>30 June 2016</i>	<i>Movement</i>	<i>Balance</i> <i>30 June 2017</i>	
Consulate General of Nauru to Australia	438,634	187,166	625,801	
High Commission of Nauru to Fiji (Suva)	97,465	179,662	277,127	
Permanent Mission of Nauru to the UN (C	120,467	118,836	239,303	
Embassy of Nauru in Taiwan (Taipei)	<u>91,527</u>	<u>10,675</u>	<u>102,201</u>	
	748,093		1,244,432	<u>1,244,432</u>

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2016 / 2017

8. Bendigo and Adelaide Bank - Agency Accounts

The Government of Nauru operates an agency of the Bendigo and Adelaide Bank on island in Nauru. The Agency was established with an investment by the Government in office furnishings and equipment. The Agency maintains a daily cash float of \$500,000 to meet over the counter transactions. These funds are not available or have a restricted use for GoN.

	<i>Balance 30 June 2016</i>	<i>Movement</i>	<i>Balance 30 June 2017</i>	
Bendigo Agent Cash Float Account	500,000	0	500,000	
Bendigo Agent Operating Account	493,215	360,143	853,358	
	993,215		1,353,358	<u>1,353,358</u>

9. GON Imprest Accounts

The Government of Nauru provides a cash float on an imprest basis with 'Our Travel' and procurement agents to enable them to purchase goods/services on the Government's behalf.

	<i>GL Balance 30 June 2016</i>	<i>Movement</i>	<i>GL Balance 30 June 2017</i>	
Imprest Account - Our Travel	0	228,265	228,265	
Imprest Account - Pacific Procurement A	0	2,005,387	2,005,387	
	0		2,233,651	<u>2,233,651</u>

10. Registrars Trust Account

The Republic of Nauru maintains a Trustee Bank Account managed by the Registrar of the Courts to hold funds for upcoming or pending court cases which may be paid to third parties. These funds are not available or have a restricted use for GoN.

	<i>Balance 30 June 2016</i>	<i>Movement</i>	<i>Balance 30 June 2017</i>	
RON Registrars Trust Account	0	0	32,672	<u>32,672</u>

11. Intergenerational Trust Fund

The NITF was established in November 2015. A Memorandum of Understanding with the Government of Australia was finalised in December 2016. Under the terms of the MOU, Nauru contributes (on an annual basis) a percentage of adjusted domestic revenue based upon a range under either a High, Medium, Low or No growth scenario. Contributions to the fund are also made by the Government of Australia and other donors. These funds are not available or have a restricted use for GoN.

	<i>Balance 30 June 2016</i>	<i>Movement</i>	<i>Balance 30 June 2017</i>	
Intergenerational Trust Fund - GoN	20,400,000	11,935,400	32,335,400	
Partner Contributions - Govt of Australia	4,928,000	5,000,000	9,928,000	
Asian Development Bank	2,634,000	0	2,634,000	
Partner Contributions - Govt of Taiwan	5,424,000	2,633,000	8,057,000	
Partner Contributions - Govt of NZ	0	0	0	
				<u>32,335,400</u>

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2016 / 2017

12. Non Current Domestic Debt - Government of Nauru

The Government of Nauru has obligations for repayment of deposits previously held with the bankrupt Bank of Nauru and for loans received from the nation's sovereign wealth fund (Nauru Phosphate Royalties Trust). The Department of Finance manages this as liquidator for the Bank of Nauru.

	<i>C/F Balance</i> <i>1 July 2016</i>	<i>Movement</i>	<i>Balance</i> <i>30 June 2017</i>	
Bank of Nauru	34,516,211	0	34,516,211	
Nauru Phosphate Royalties Trust	25,195,069	0	25,195,069	
	<u>59,711,280</u>		<u>59,711,280</u>	<u><u>59,711,280</u></u>

13. Changes in Equity

As a result of it being impracticable to resolve the discrepancies existing between the General Ledger and the Bank Statement (due to there being no reconciliation), the net difference has been identified as Errors and Omissions and reflected against Equity. The 2016-2017 General Ledger has been closed within the FMIS and it is not possible to post the discrepancies to the General Ledger. They are reflected (outside of the FMIS) in the Financial Statements.

Opening Balance 1 July 2016 (Calculated)	(27,226,722)	
<i>Changes in equity during the year</i>		
Deficit for the year - net cash decrease resulting from receipts & payments	(3,433,279)	
Intergenerational Trust Fund	Note 13 32,335,400	
Errors and Omissions	(6,340,628)	
Closing Balance 30 June 2017		<u><u>(4,665,229)</u></u>

14. Contingent Liabilities

The Government of Nauru has contingent liabilities that relate to RONFIN issued Samurai Bonds (Yen bearer bonds) held by Firebird. These bonds are not recognised in the balance sheet as Government Debt due to uncertainty on the valuation of the liability and the Government position on repayment. The Government, as guarantor of RONFIN, defaulted on the loans in the 1990s. Firebird holds a proportion of Series B (52.5%) and Series C (88%) bonds, valued at Y3,545,196,000 which is estimated to be equivalent to AU\$48,259,308 plus interest accrued at a daily rate of \$3,337.94.

FINANCIAL STATEMENTS FOR GOVERNMENT OF THE REPUBLIC OF NAURU
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2016 / 2017

15. Customs Duty

Import duties are a charge placed on all imports to Nauru and levied at the port of entry. The basis for calculation of the charge varies depending on the product, and may be volumetric (excise type charge) or ad valorem (based on a percentage of the product's value).

1140 - Customs and Excise Duty - Tobacco	4,195,206
1145 - Customs and Excise Duty - Alcohol	1,545,537
1150 - Customs and Excise Duty - Sugar	619,990
1155 - Customs and Excise - Machinery/Vehicle/Equip.	518,394
1160 - Customs and Excise Duty - Other	2,542,885
1165 - Customs and Excise Duty - Petrol Sales	2,502,034
1170 - Customs and Excise Duty - Diesel Sales	4,518,994
1175 - Customs and Excise Duty - JetA1	44,289
	16,487,328

16. Donations, Grants and Other Aid

Direct budget support funding from donors is recognised at the time of receipt. Donor funding received for projects in Nauru is recognised as revenue within the separate donor bank account (separated from the Treasury Operating Account) at the time of receipt.

1660 - General Budget Support (Taiwan)	6,143,357
1675 - Repayment of Business (Micro Finance) Loans (CIE)	100
1000 - Donor Project Income	5,355,271
	11,498,728

17. Fees, Fines, Penalties and Licenses

Fees, Fines, Penalties and Licenses are charges associated with the government services provided to individuals and businesses. Service fees include medical and some Regional Processing Centre related charges.

1215 - Licenses-Drivers etc	89,539
1220 - Corporation Fees and Licenses	5,478
1225 - Licenses-Trading	179,725
1230 - Liquor Licensing Board	36,151
1235 - Gaming / Bingo Licenses	359,091
1240 - Licenses-Dogs etc	55
1290 - Motor Vehicle Inspection Fees	675
1295 - Motor Cycle Inspection Fees	30
1300 - Registration Fees-Motor Cars	47,981
1305 - Registration Fees-Motorcycles	5,250
1325 - Passport Fees and Photographs	241,133
1485 - Quarantine Fees	54,528
1490 - Court Fines and Fees	59,101
1495 - Service Fees	15,460
1550 - Canteen Fees	1,300
1560 - International Settlement-Comms Traffic	4,795
	1,100,291

18. Trading Activities - Visa Revenue

Visa Fees relate to the granting of visas to foreigners entering Nauru on either business or as visitors, as well as, for refugees, asylum seekers and workers at the Regional Processing Centre (RPC)

1330 - Visa Check up	8,942
1335 - Visa Fees - Refugee Processing Centre (RPC)	2,930,803
1575 - Visa Fees (Other Business)	7,003,536
1580 - Visa Fees - Refugee Processing Centre (RPC) Resettlement	12,754,323
	22,697,604

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19. Trading Activities - Others

Other trading activities relate to charges associated with airport and seaport usage, issue of certificates as well as, sales of other goods/services.

1260 - Birth Certificate	25,410
1265 - Death Certificate	610
1270 - Marriage Certificate	2,600
1340 - Police Clearance	70,095
1360 - Department of Civil Aviation (D.C.A.)-Pax Levy	690,775
1365 - Department of Civil Aviation (D.C.A.)-Departure Taxes	618,725
1370 - Department of Civil Aviation (D.C.A.)-Air Navigation Fees	451,892
1375 - Department of Civil Aviation (D.C.A.)-Landing Fees	524,437
1380 - Department of Civil Aviation (D.C.A.)-Rental Fees	171,150
1400 - Port Fees	985,197
1420 - Warehouse sales	70,963
1480 - Bus Services	1,983
1500 - Sale of Maps	8,970
1520 - Food Handler Check up	8,720
1525 - PO Box Rentals	1,740
1530 - Philatelic Bureau Sales	1,045
1540 - Advertising Revenue	7,322
1555 - Spectacles, Drugs etc	3,885
1565 - Medical Services	4,306
	<u>3,649,824</u>

20. Other receipts

Other receipts primarily relates to reimbursables associated with the Regional Processing Centre.

1121 - Curator fees	76,032
1475 - Miscellaneous Revenue	17,920,061
1577 - Department of Justice and Border Control - Operations	3,739,614
1578 - Department of Justice and Border Control - Reimbursable Costs	5,974,720
	<u>27,710,428</u>

21. Awards & Social Assistances

Awards and Social Assistance relates primarily to programs/projects used to support the community through housing, employment, education, welfare, logistics, etc.

2220 - Nauru Community Housing	7,756,899
2235 - Special Projects	11,917,903
2440 - Scholarships - School & Trade	1,345,227
2560 - Educational Expenses - Special	53,842
2625 - Family Court Expenses	5,700
2630 - Safe House	10,099
2705 - NEAT Scheme	495
	<u>21,090,165</u>

22. Consultant & External Services

Consultant and external services relate to the provision of advice and technical expertise by expatriate employees/contractors or overseas businesses.

2030 - Salaries Other contracts - Expatriate	22,302,545
2055 - Consultants fees	3,881,047
2060 - Legal Fees - External	1,127,375
2464 - Management Monitoring & Evaluation	292
	<u>27,311,259</u>

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23. Drugs, Medical Supplies and Services

Drugs, medical supplies and services relate to the provision of hospital and medical services both in Nauru, as well as, by medical providers overseas.

2460 - Medical Expenses	8,566
2461 - Primary Health Care Services	50,806
2462 - NCD Control & Health Promotion	37,054
2463 - Environmental Health and Food safety	27,102
2467 - Drugs and Medicines	377,077
2468 - Dental Supplies	130
2469 - Dialysis Supplies	74,676
2471 - Medical Consumable	359,999
2472 - Laboratory supplies	168,704
2473 - Radiology Supplies	26,463
2474 - Clinical Education Supplies	7,578
2475 - Overseas Medical Treatment	5,302,927
2480 - Medical Equipment	689,778
	7,130,859

24. Rental Expense

Rental expenses relate to the costs associated with accessing infrastructure for government offices and employees to function. The Government provides housing to all expatriates as part of their contracts. Expatriates include teachers, nurses, doctors, accountants and administrators across the public service.

2155 - House Rental	4,268,902
2160 - Land Rental	6,652,437
2165 - Office Rental	451,378
	11,372,717

25. Retirement Benefits & Social Security

Retirement benefits and social security relates to assistance provided to community members to provide a social safety net for those that have experienced a significant family event, are over 60 or disabled, or previously made a contribution to society in a public role.

2390 - Social Welfare - Birth Claims	33,900
2395 - Social Welfare - Death Claims	131,200
2400 - Social Services - Aged Pensions	1,848,044
2405 - Social Services - Super Contributors	90,794
2410 - Social Services - Super Ex MP's	271,718
2420 - Social Services - Disability Payments	868,520
	3,244,177

26. Travel & local transportation

Travel and local transport relates to land transport (including vehicle rental) in Nauru, as well as, flights, accommodation and allowances while travelling overseas.

2575 - Local Transport	651,682
2075 - Travel - Business	4,827,145
2080 - Travel - Accountable Allowances	133
	5,478,960

27. Wages, salaries and employee benefits

Wages, salaries and employee benefits are local employee costs associated with operating the government's public service, including costs for parliamentarians and expatriates.

2005 - Salaries & Allowances - (MP's)	1,067,429
2010 - HE Salary & Allowances	115,417
2015 - Salary - Local	14,826,942
2020 - Salary Expatriate	7,689,492
2025 - Allowances - Staff Contract	1,072,807
2026 - Directors Fees	46,732
2035 - Overtime - local	339,609
2040 - Staff Training	788,180
2045 - Recruitment	74,814
2050 - Uniforms & Protective Clothing	128,007
2070 - Travel - Staff	432,376
	26,581,805

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28. Purchase/construction of plant and equipment

Property, plant and equipment purchase/construction relates to expenditure incurred for the acquisition of new assets by government.

2495 - Plant & Equipment Purchases	2,911,487
2580 - Public Works	977,574
	<u>3,889,060</u>

29. Repair & Maintenance Expenses

Repair and maintenance expenses relates to expenditure incurred for the repair, servicing and maintenance of existing government assets.

2185 - R&M - Buildings	2,126,215
2190 - R&M - Office Equipment	71,328
2191 - R&M Medical Equipment	230,967
2195 - R&M - Office Premises	196,549
2200 - R&M - Motor Vehicles	320,943
2205 - R&M - Plant	357,996
2210 - R&M - Aerodrome	103,412
	<u>3,407,410</u>

30. Payment of GoN debts and Subsidies

GoN provides funds to State Owned Enterprises and external parties, such as sports clubs or churches, in the form of subsidies and donations.

2615 - Other Subsidies & Donations	4,615,409
	<u>4,615,409</u>

31. Intergenerational Trust fund

The NTF was established in November 2015. A Memorandum of Understanding with the Government of Australia was finalised in December 2016. Under the terms of the MOU, Nauru contributes (on an annual basis) a percentage of adjusted domestic revenue.

2650 - Trust Fund	11,935,400
	<u>11,935,400</u>

32. Subsidies/Debt Repayments to State Owned Entities

The Government of Nauru does not consolidate accounts with SOEs and for the purpose of complying to IPSAS Cash basis for reporting, investments and loans are not reflected. The table following payments were made to SOEs in 2016-17.

Nauru Utilities Corporation	3,000,000
Nauru Rehabilitation Corporation	
Republic of Nauru Phosphate Corporation	1,000,000
Nauru Phosphate Royalties Trust	
Port Authority of Nauru	
Eigigu Holdings Corporation	435,000
Nauru Air Corporation	
Nauru Fisheries and Marine Resources Authority	
	<u>4,435,000</u>

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33. Membership Fees and Subscriptions

2016 / 2017

The GoN maintains the membership of various international agencies, bodies and organisations, incurring annual membership fees, contributions, subscriptions and renewals. Payments were made to the following entities in 2016-17.

Commonwealth Parliamentary Association (CPA)	24,117
Pacific Islands Development Forum (PIDF)	0
Organisation for Economic Cooperation and Development (OECD)	0
International Monetary Fund (IMF)	16,634
Secretariat of the Pacific Regional Environment Programme (SPREP)	25,576
International Union for Conservation of Nature (IUCN)	0
Forum Fisheries Agency (FFA)	40,008
Western and Central Pacific Fisheries Commission (WCPFC)	73,802
Asia/Pacific Group on Money Laundering (APG)	9,895
Commonwealth of Learning (COL)	6,527
University of South Pacific (USP)	77,875
United Nations Education, Scientific & Cultural Organisation (UNESCO)	10,305
Pacific Islands Forum Secretariat (PIFS)	33,309
UNDP - Government Contributions towards Local Office Costs	35,502
Commonwealth Secretariat	55,770
Commonwealth Youth Programme (CYP)	9,900
Pacific Community (SPC)	128,372
Comprehensive Nuclear-Test-Ban Treaty Organisation (CTBTO)	21,480
International Whaling Commission (IWC)	0
United Nations General Fund (UN)	0
Pacific Aviation Safety Office (PASO)	8,925
Central Pacific Shipping Commission (CPSC)	9,389
Other Memberships/Subscriptions	205,850
	793,235

2016 / 2017

34. Development Partner Balances

Donors	Bank Balance 1 July 2016	Project Income (Bank)	Project Expenditure (FMIS)	FMIS Bank Balance 30 June 2017	Reimbursemen t Variance (incl Bank Fees)	Actual Bank Balance 30 June 2017
01 - Taiwan	30,678	0	4,000	26,678	7,803	18,875
02 - AusAID	13,354,935	3,173,555	7,457,482	9,071,008	(388,109)	9,459,117
03 - NZAID	665,269	689,950	318,164	1,037,054	16,673	1,020,382
05 - SPC-NCD	0	156,425	19,092	137,333	(3,139)	140,472
06 - UNDP	99,698	114,273	210,058	3,913	(64,716)	68,629
10 - Japan	823,362	131,647	49,200	905,809	845,971	59,838
12 - Italy	6,979	271,774	6,976	271,776	3	271,774
17 - Russia	0	0	0	0	0	0
24 - GEF	73,105	179,871	144,456	108,521	(1,721)	110,242
28 - UNESCO	0	102,645	10,060	92,585	(10,057)	102,642
29 - UNFAO	5,843	1,125	0	6,968	3,713	3,255
33 - UNICEF	0	24,041	0	24,041	24,044	(3)
34 - Other UN	278,237	0	2,144	276,093	95,613	180,481
37 - WHO Projects	274,912	0	19,617	255,295	2,035	253,260
38 - Regional Fisheries Marine C	46,355	3,846	31,988	18,213	6,003	12,210
40 - India	177,285	0	0	177,285	175,803	1,482
41 - UNESCAP	0	29,933	26,680	3,253	(21,617)	24,870
Japan - Non-Project Grant Aid	0	476,186	0	476,186	0	476,186
	15,836,657	5,355,271	8,299,917	12,892,011	688,299	12,203,712