



# **REPUBLIC OF NAURU**

## **ANNUAL AUDIT REPORT OF THE AUDITOR GENERAL**

**(UNDER SECTION 11 OF THE AUDIT ACT 1973)**

**For the Year Ended 30th June 2018**



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

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**AUDIT CERTIFICATE OF THE AUDITOR GENERAL  
ON THE ACCOUNTS OF THE REPUBLIC OF NAURU  
FOR THE YEAR ENDED 30TH JUNE 2018**

I have examined the Annual Financial Statement of the Republic of Nauru, Treasury Fund, Intergenerational Trust Fund and other related documents as at 30<sup>th</sup> June 2018, 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.

12<sup>th</sup> April 2021  
Nauru



**MANOHARAN NAIR  
AUDITOR GENERAL**



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

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Republic of Nauru Whole of Government Financial Statements for the year ended 30<sup>th</sup> June 2018.**

Pursuant to Section 10(1) of the Audit Act 1973, I have audited the accompanying Financial Statements of the Republic of Nauru, for the year ended 30<sup>th</sup> June 2018. These financial statements comprise the following 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. Comparison of Budget and Actual
6. Notes to the Financial Statements

**Management's Responsibility for the Financial Statements:**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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:**

The Financial Statements are produced without including many of the mandatory parts that are required to be submitted. Although there is evidence of outstanding payables and receivables, it does not exist in the Financial Statement as required under the law. Scope limitations have been issued against a few account heads due to non-receipt of satisfactory explanations. The amount included in the budget has been misused for other expenses and certain funds have been spent towards expenses not included in the budget.

**Qualified Opinion:**

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, and matters described in the Management letter, the financial statements present fairly, in all material respects the results of operations of Government of Nauru as at 30<sup>th</sup> June 2018.

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.

Schedule of fixed assets, as required under the Audit Act 1973, Sec 10 (c); Statement of Govt. Loan fund as required under Audit Act 1973 Sec. 10(b) and loans paid to SOEs are not provided along with the Financial Statements.

**Report on Other Legal and Regulatory Requirements:**

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:

Loan paid to State Owned Enterprises were considered as expenditure instead of considering it as non-current Assets of Government.

Money has been spent on some expenses not approved by Parliament. Similarly, the amount approved in the budget has been utilized against other account heads without effecting inter-subhead transfers as according to management, the budget has been approved inadvertently under wrong account code.



MANOHARAN NAIR  
AUDITOR GENERAL



Dated: 12<sup>th</sup> April 2021

# **REPUBLIC OF NAURU**

## **ANNUAL FINANCIAL STATEMENT**



### **Management Letter**

**Whole of Government Annual Financials 2017-18**

**This draft management letter on Audit of GON annual financials 2017-18 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 30<sup>TH</sup> JUNE 2018

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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. Accordingly, the financial statements for the year ending 30 June 2018 were prepared and submitted for audit on 24<sup>th</sup> August 2020. 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 are revealed during the audit.

### **SCOPE AND DETERMINATION OF RESPONSIBILITY:**

The audit was conducted in accordance with the International Standard of Supreme Audit Institutions (ISSAIs) which is premised on the International Standard of Auditing. 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:

## **DETAILED AUDIT FINDINGS**

Analysis of the accompanying Financial Statements 2017-18 and notes to accounts have been grouped into four parts and its consideration of the management during the course of audit is provided as under:

### **Group 1:**

#### **Assessment of financial statements against IPSAS Cash basis:**

The Financial Statements have been formulated to conform to IPSAS Cash basis and IFRS.

While assessing the compliance of conforming to IPSAS Cash basis of accounting audit finds that all cash transactions are presented free from material error as required under IPSAS 1.3.27. However, there was an adjustment made against the prior year opening cash balance by \$853,358 towards Bendigo Bank operating account which was considered along with other bank accounts of Government and now excluded from Government holding. Although it is not reflecting in FMIS, this particular account balance was included along with other Government accounts inadvertently in the prior year, 2016-17. The Agency account is not a Treasury account and Treasury does not have any right to operate this account as per the agreement between Bendigo Bank and GON. The removal of this particular account balance from books of accounts has resulted in a variance in the prior year opening balance, and is reflected in the equity of the Govt. However, a separate note has not been provided in Note 8 of the financial statement explaining the difference.

To rectify all opening and closing balances, which are in agreement with the FMIS and bank balances, Management provided explanations where needed to the variations to the utmost satisfactions of audit. However, separate note has not been provided in Note 8 of the financial statement explaining the difference.

All overseas mission accounts are in agreement with the books of accounts and bank balances. All amounts in foreign currencies have converted to/from the nearest Australian dollar using exchange rate provided by Bendigo and Adelaide Bank on the day of the transaction as required under IPSAS 1.6.3. However, as required under IPSAS 1.6.8, disclosure of unrealized gains and losses from changes in foreign currency exchange rates have not been provided in the financial statements.

Management clarified in Note 1 of the financial statements that foreign currency exchange differences may arise due to foreign currency exchange rate changes, however, the amount of the difference or gains and losses arising cannot be ascertained.

All amounts are in Australian Dollar

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 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 disclosed presentation of currency is in Australian in almost all components except with certain notes to accounts.

IPSAS 1.3.27 expects that the Financial Statements present information that is:

- a) Timely. Contrary to this, Financial Statements for 2017-18 were submitted in August 2020. Audit Act 1973 requires that the financial statements should be submitted within 3 months from balance date.
- b) Verifiable. However, many departments have not kept supporting documents for their revenues/expenses for 2017-18. Some balance sheet items are not verifiable.

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 error in regard to non-current domestic debts is reported to the management:

Note : 12	Non-Current Domestic Debt:	<u>2016-17</u>	<u>2017-18</u>
	Bank of Nauru	34,516,211	34,316,781
	Nauru Phosphate Royalties Trust	25,195,069	25,195,069

As per FMIS the amount disbursed against Bank of Nauru outstanding is \$499,994 whereas as per the Financial Statement 2017-18 the amount paid is only \$199,430, thus leaving a net difference of \$300,564.

The management in reply to Audit POM03/30.09.20 clarified the reasons for the difference; the amount had not been paid out and was verified by Audit, though the bank statements, that payment had not been released. The amount should have been reversed in FMIS, as unless rectified, this would affect the next year annual financials.

All the recommendations have been discussed and considered by the management during the course of the Audit. There were few other 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. We have not been provided with mandatory parts of the financial statements which are reportedly prepared under IPSAS Cash basis of accounting and the Section 10 of the Audit Act 1973, namely the:

**(1) 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 (2016-17), it was clarified by Treasury that assets valuation has been put in place and will be improved with time. However Audit has noted during this audit that there has been no further improvement.

**(2) 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 2017-18 provides detailed information about the Trust fund in Note 11 as follows:

Total amount contributed by Nauru during the year was **\$14,796,874** and other agencies contributed **\$6,573,000**, bringing the total to **\$ 74,324,274.00** as at 30<sup>th</sup> June 2018. (Prior year balance **\$52,954,400**)

There is no Loan fund recognized as at 30<sup>th</sup> June 2018 as there is no active loan. However, Bank of Nauru and NPRT related debit amounting to \$59,511,850 is reflected in Note 12 of the Financial Statement as liability of the Government.

All amounts are in Australian Dollar

### **Statement of Changes in Equity:**

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

<b>Government Equity (Note 13) 2017-18</b>	<b>\$40,959,471</b>
	(\$ -4,665,229 prior year which is rectified to \$ -5,518,587 due to exclusion of Bendigo Bank Agency account balance of \$853,358.)

In the prior year 2016-17, the equity of the Government was in negative \$ 4.66 million (rectified to \$5.51 million) whereas during the current year 2017-18, the net equity rose to positive figure of \$41 million as the assets had gone up. However, out of the Assets, the Intergenerational Trust Fund (Note 11 – Non-current Assets) amounting to \$47,132,274 had been included.

It should be read with details provided in Group 2 below:

### **Group 2:**

#### **Current Assets:**

#### **(a) Intergenerational Trust Fund: Note 11**

This Trust fund was set up in 2014 through and MoU between Nauru, Australia and Taiwan. Nauru's contribution to this fund as at 30<sup>th</sup> June 2018 is \$47,132,274.

	<b>2017-18</b>	<b>2016-17</b>
INTERGENERATIONAL TRUST FUND	47,132,274	32,335,400

This Fund is invested in financial institutions. The Trust prepares its own financial statements. GON may not withdraw any surplus or invested amount of this fund until year 2033.

Under 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 \$47,132,274 has been considered as Non-Current Asset of the Government.

Additional note has been provided under Note 11 of the Financial Statement for 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 \$ 74,324,274. The amount provided in the Financial Statement is the contribution of GON only.

All amounts are in Australian Dollar

**(b) Registrars Trust Fund: Note : 10**

RON maintains a Trust Bank Account with Bendigo Bank, which is managed by the Registrar of Courts and 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 \$35,189 is deposited into the account as at 30<sup>th</sup> June 2018. This fund has been considered as Current Assets of the Government as Government of Nauru is the sole holder of this Trust fund account and is available for restricted use by GON.

**(c) Debtors:**

There are no debtors shown as at 30.6.2018 in the statement of Assets and Liabilities. During the year 2016-17, it was clarified by the management that there being insufficient information available to substantiate the carried forward balances in the FMIS, a policy decision was taken to suspend all receivable till the time it is reconciled appropriately.

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. Therefore, this statutory requirement has not been fulfilled by Treasury.

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

The Financial Statements have consolidated the financial results of Nauru Port Authority and Nauru Fisheries & Marine Resources Authority. These Corporations are established under an Act of Parliament, and functioning under the Nauru Corporations Act, therefore required to prepare separate financial statements and lay them before the Parliament after statutory audit along with separate Audit reports. Additional note disclosure to transparently explain the above anomaly is required to the accounting policy with appropriate disclosure as the estimated amounts pertaining to SOEs.

**(e) Subsidies/Debt Repayments to SOEs : Note : 32**

During the year, to support SOE operations, a sum of \$9,673,206 was contributed to various SOEs, Details are provided below:

*All amounts are in Australian Dollar*

Eigigu Holdings Corpn.	5,114,869	includes Menen Hotel rennovation
Nauru Utilities Corporatoin	2,058,337	monthly fuel subsidy grant
Ronphos Corporation	2,500,000	Outstanding debt payments
<b>Total</b>	<b>9,673,206</b>	

The payment of \$5.11 million to Eigigu Holdings includes payment of \$3.23 million for Menen Hotel renovation and \$1.88 million towards Civic Centre renovation

**(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 30<sup>th</sup> June 2018 is \$11,426,894.

	<b>2017-18</b>	<b>2016-17</b>
DFAT Australia Bank Account	8,536,022	9,459,117
MFAT New Zealand Bank Account	1,837,038	1,020,382
Govt. of Janap Non-project Grand	476,186	476,186
Various other fund Accounts	577,648	1,248,027
<b>Total</b>	<b>11,426,894</b>	<b>12,203,712</b>

**(g) Government of Nauru Overseas Missions: Note 7**

All overseas mission account balances have been reconciled and following are the amounts held by the Missions as at 30<sup>th</sup> June 2018.

	<b>2017-18 Balance as at 30.6.2018</b>	<b>Balance Prior year 2016-17</b>
Consulate General of Nauru to Australia, Brisbane	838,897	625,801
Consulate General of Nauru - Procurement	142,440	-
High Commission of Nauru to Fiji, Suva	20,328	277,127
Permanent Mission of Nauru to the UN, New York	198,642	239,303
Embassy of Nauru in Taiwan, Taipei	24,845	102,201
<b>Total</b>	<b>1,225,152</b>	<b>1,244,432</b>

In the case of (1) High Commission Fiji, Suva (2) UN Mission, New York and (3) Embassy of Nauru Taipei, the amounts in foreign currency have not been presented in the Annual Financials instead provided only the converted amount in nearest Australian Dollar.

All amounts are in Australian Dollar

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

Value of Plant & equipment has not been included in the financial statements as its' fair value has not been determined so far. This practice is followed by GON since the prior year (2016-17) as there had been no proper depreciation, additions or deletions carried out since 2013-14. Purchases of furniture, motor vehicle, air conditioners, building construction, and so forth during the financial year 2017-18 have been charged off to expenses without updating the total amount of non-current assets. Thus, the management noted that the figures are inappropriate to be carried forward to the Annual Financial Statements 2017-18 as required under IPSAS 17.

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 2017-18 also and consider reconstituting the same in a later date, after considering its re-valuation.

This 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. This primary requirement under the law, therefore, could not be considered at the time of preparation of the Annual Financials 2017-18 due to the existing issues outlined in the paragraph above.

**Group 3:**

**CURRENT LIABILITIES:**

**(a) Registrars of Trust Account:**

GON 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, it has also been considered as a Liability of the government as at 30<sup>th</sup> June 2018. The amount in this Trust account as at 30<sup>th</sup> June 2018 is \$35,189 (prior year \$32,672). Details are provided in Note 10 of the financial statement.

All amounts are in Australian Dollar

**(b) Domestic Debts: Bank of Nauru:**

The obligation of the Government to pay deposits of BON account holders amounting to \$34,316,781 (prior year \$34,516,211) has been considered as a legitimate debt of the government. A difference in payment was found between FMIS and Financial statements. The payment made as per FMIS is \$499,994 whereas as per the Financial Statement, the movement was \$199,430 only, thus leaving a variance of \$300,564. It has been clarified to Audit that although a further sum of \$299,998 was approved and posted in FMIS, it was not paid out, and hence, the difference in balances. Audit scrutinized the bank payments and found that this amount has not been paid. Management is unable to post a rectification entry as FMIS is closed for the year ending 30<sup>th</sup> June 2018. The total liability of the Government towards BON payment stands at \$34,316,781 as at 30<sup>th</sup> June 2018.

**(c) Domestic Debts : Nauru Phosphate Royalties Trust:**

The consolidated debtor and creditor account of Bank of Nauru, prepared by Deloitte, provides a sum of \$25,195,069 is due to NPRT by Bank of Nauru. Since the Government of Nauru is the sole guarantor of all liabilities held of BON, the responsibility of making payment against BON liquidation has been taken by GON, hence, this amount is appearing in the Annual Financials as the liability of GON. This liability is static for the past few years. During this year, Treasury provided support documentation to authenticate this outstanding payment.

**(d) Domestic debts : Trade & Other Payables:**

As stated in the prior year 2016-17 Annual Financials, for the current financial year 2017-18 also, no payables were considered as liability of the government as it was not possible to substantiate the information on the FMIS. Balance confirmation letters could not be obtained from any of the SOEs or external organizations, so, the management, to avoid any discrepancy, excluded these balances from the Financial Statements 2017-18; to re-consider the same 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 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

*All amounts are in Australian Dollar*

prescribed time period as decided by the Parliament. Therefore, this prime requirement under the law has not been considered at the time of preparing the Annual Financials 2017-18.

#### **Contingent Liability : Note 14**

Additional note (Note 14) has been given on Contingent Liability of the Government. The Firebird yen bond debt is estimated to be AU\$ 48.25 million as at 30<sup>th</sup> June 2018, 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's position to pay it. The interest payable on the principal amount of this bond is \$3,337.94 on a daily basis (\$1,218,348 in a year).

#### **Group 4**

##### **Other Transactions:**

##### **(a) Differences between Trial Balance (GL) and Financial Statements:**

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 could not verify the differences.

##### **Review of Payroll Transactions:**

##### **(b) Payroll transactions: Note 27**

The payroll transactions were verified with FMIS and Financial Statements keeping in mind whether:

- (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.

The data within FMIS reveals that the figures provided in the financial statements are tallying and correctly stated after deducting the Aid funds received towards such expenses. Audit verified this data with the data recorded with HR department and found it tallied with Treasury payments.

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

All amounts are in Australian Dollar

Recurrent Expenditure	Note #	Amount as per General Ledger	Less Aid Funded	Net GON Expenditure	Exp. As per Financial Statement	Variance	Remarks
HE Salary & Allowances	27	96,984	-	96,984	96,984	0.25	Round off
Salary and allowances MPs	27	1,008,281	-	1,008,281	1,008,281	-	Round off
Salary Local	27	15,096,104	91,045	15,005,059	15,005,059	- 0.02	Round off
Salary Expatriate	27	8,238,548	368,964	7,869,585	7,869,585	- 0.07	Round off
Allowances Staff Contract	27	1,895,479	2,400	1,893,079	1,893,079	0.32	Round off
Overtime Local	27	566,031	-	566,031	566,031	- 0.27	Round off
Recruitment	27	125,411	-	125,411	125,411	0.21	Round off
Staff Training	27	964,040	287,178	676,862	676,862	0.22	Round off
<b>TOTAL</b>	<b>27</b>	<b>27,990,880</b>	<b>749,587</b>	<b>27,241,293</b>	<b>27,241,292</b>	<b>0.64</b>	

All salary related payments are in order with FMIS and Financial statement.

**(c) Corrections in the Statements :**

**Comparative figures:**

The comparative figures provided in the financial statements 2017-18 are in line with the prior year annual financials. However, due to error rectification of removal of Bendigo Bank agency Operating account from GON Assets, a difference of \$853,358 appears in Assets and Liabilities. The Bendigo Bank Agency operating balance is not an asset of GON as per the terms of agreement with Bendigo bank at the time of opening of the Agency in Nauru. This money is meant entirely for the operation of Bendigo Bank Agency only. 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 (Note 8).

**(d) 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, payments of less than \$1000 are approved/authorized by the Secretary for Finance/Chief Accountant or Deputy Secretary Treasury and payments over \$1000 can only be authorized by the Minister for Finance. Once approved, payment is released through EFT or cash/cheque though NRO.

**Our test of control showed the following issues:**

All amounts are in Australian Dollar

**(1) Non-completion of formalities as required by Policy:**

In certain cases, particularly with Nauru Community Housing Scheme (NCHS) Expenses, the required support documents were not attached along with the Payment Vouchers. Against the NCHS expenditure, which amounts to \$5,560,805 for the year 2017-18, certain payments were released based on agreement between the contractor and the Member of Parliament. Cost of material and labour is to be provided by the Contractor; purchase invoice and labour costs should be attached along with the PV, but in some cases it was not done so. In the NCHS policy, there is a requirement that a certificate of completion is signed by the contractor, house owner and MP but this has not been followed. Thus, Audit is unable to verify whether the work awarded to the contractor has been fully executed to the beneficiary's satisfaction.

It is essential; therefore, that the certificate of completion is attached to the PV and management is reminded to take action on this.

**(2) Incorrect classification of expense items:**

Incorrect classification means payments being accounted for against incorrect natural accounts thus causing these accounts to be overstated and the correct ones to be understated.

Compared to the prior years, during the current year, there has been improvement in all departments, especially with the Treasury in debiting expenses to the correct natural accounts. As a result, only a few errors have been found during the course of audit. An example is given below:

S.No.	Classification adopted	Classification ought to be adopted	Amount
1	2405 - Super Contributions PV No.Nil dt. 09.03.18 - Dept 16	2420 - Disability Pensions	16,480.00

**(3) Misappropriation of expenses in Budget:**

Audit noticed also that the budget allocation in some natural accounts had been misappropriated and used against other expenses resulting in utilization of funds as illegal expenses. The following are some of the errors and all incorrect allocations have been clarified by the management. Steps should be initiated to prevent occur such errors in the future.

All amounts are in Australian Dollar

Natural Account actually allocated	Particulars	Additional Amount allocated (Supp Budget) \$	Wrong Natural a/c code used in FMIS	Particulars
2650	Trust Fund	2,000,000.00	2652	Fiscal Cash buffer
2650	Trust Fund	6,433.00	2651	GON Contribution
2615	Other subsidies	600,000.00	2616	Subsidies to SOEs
2615	Other subsidies	65,000.00	2617	Donations - Locals
2185	R&M Buildings	606,476.00	2496	Building & Structure
2695	50th Independence	390,000.00	2105	Official Celebrations
2165	Office rent	200,984.00	2160	Land Rental
2630	Safe house	120,000.00	2495	Plant & Equipment

#### (4) Illegal Expenses

In addition to the above errors, a sum of \$475,288 has been expended without proper appropriation. Though the total expenditure of GON is within the budget allocation, the expenditure shown in the statement below had not been approved by the Parliament, hence, should be treated as an illegal expenses.

A/c No.	Description	Budget 2017-18	Supp I to V	ISHT	Revised Budget	Total Expenditure FMIS	Less Aid Fund	Actual Expenses	Budget Vs Actual
2020	Salary Expatria	7,835,314	224,516	- 601,485	7,458,345	8,238,549	368,964	7,869,585	- 411,240.30
2220	NCH	5,550,000	1,000,000	- 1,015,320	5,534,680	5,560,805	-	5,560,805	- 26,125.00
2005	Salaries & Allo	1,109,050	-	- 120,000	989,050	1,008,281	-	1,008,281	- 19,231.00
2475	Overseas Medica	2,000,000	2,000,000	1,455,834	5,455,834	5,472,574	-	5,472,574	- 16,740.00
2010	HE Salary & All	100,032	-	- 5,000	95,032	96,984	-	96,984	- 1,952.00
<b>Total illegal expenditure</b>									<b>- 475,288.30</b>

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

Current year total expenditure incurred (other than donor project expenses) is \$158,286,318 against the total earnings of \$181,479,161 (excluding donor project income). It should be noted that this year's revenue was in surplus. Approximately 87 % of total revenue is used for expenses. Of this \$ 14,796,874 (8% approx.) went to the Intergenerational Trust Fund. Hence, 79% of the income only is considered as actual expenses and the remaining balance (21%) is retained in savings and surplus earnings. It in turn facilitated to cut down the Republic's net deficit up to certain extent.

All amounts are in Australian Dollar

## **Group 5:**

### **Income:**

The total income for the year 2017-18 as per FMIS is \$180,905,430 whereas in the Annual Financial Statement the total income provided is \$189,556,402 (\$145,537,150 prior year) thus leaving an excess income (difference) of \$8,650,972.

The revenue difference appeared as there was a donor income of \$8,077,241 during the year, \$575,431 was also considered during the year as visa revenue against receivables for prior year (*There was no receivable provided in the Assets and Liabilities Statement in the prior year and current year*).

Details provided in the table below:

Particulars	Revenue as per Financial Statement	Revenue as per FMIS	Difference
<b>Revenue</b>	<b>189,556,402</b>	<b>180,905,430</b>	<b>8,650,972</b>
Add: Donor Income	-	8,077,241	-
Add: Visa Revenue (Receivable of 2016-17)	-	575,431	-
Less : Expenses erroneously credited to income (EHCTS Customs OT May 2017)	-	1,600	-
Less: Birth certificate (code 1260) not received and posted in commitment	-	100	-
<b>TOTAL</b>	<b>189,556,402</b>	<b>189,556,402</b>	<b>-</b>

The initial budgeted income was \$129,703,646 for the year 2017-18. Supplementary budget provided a further sum of \$37,904,551 thus increasing the total budget allocation to \$167,608,197 against the total earnings of \$189,556,402. This resulted in a surplus income of \$21,948,205, approximately 13.09% over and above the projected income.

Details of excess income earned are given below:

All amounts are in Australian Dollar

Cash flows	Original Budget	Supplimentary Budget	Total Budget 2017-18	Actual Receipt	Difference - Excess income earned
Income Tax	3,900,000	4,360,000	8,260,000	8,657,054	397,054
Business Tax	800,000	17,727,464	18,527,464	18,662,944	135,480
Customs Duty	17,146,357	- 1,865,615	15,280,742	18,172,308	2,891,566
Other Tax receipts	1,512,000	140,000	1,652,000	1,865,505	213,505
Donations, Grants and other Aid income	7,062,749	-	7,062,749	15,422,302	8,359,553
Investment Income	-	-	-	1,058,711	1,058,711
Fishing Licenses income	44,474,776	- 1,654,981	42,819,795	46,363,043	3,543,248
Fees, fines, licenses and Penalties	1,307,990	14,000,000	15,307,990	18,227,292	2,919,302
Visa Revenue	19,300,000	1,084,910	20,384,910	28,946,095	8,561,185
Rceipt from Trading Activities	5,741,276	-	5,741,276	4,073,882	- 1,667,394
Other misc receipts	28,458,498	4,112,773	32,571,271	28,107,265	- 4,464,006
<b>TOTAL</b>	<b>129,703,646</b>	<b>37,904,551</b>	<b>167,608,197</b>	<b>189,556,401</b>	<b>21,948,204</b>

### **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 was considered as a direct income of the government as NFMRA remains as a department of GON though it is established as a Corporation.

### **Recurrent Income : Customs duties (Note 15):**

Particulars	2017-18 Budget after considering Supp. Budget	2017-18 Actuals	Prior year (2016-17) Actuals
Custom Duty	15,820,742.00	18,172,308	16,487,328

Department of Customs did not provide sufficient evidence to Audit to verify that Customs duties are collected properly and did not provide appropriate documents for scrutinizing for the financial year 2017-18 despite numerous follow-ups.

The process of collecting Customs duty is undertaken by NRO office and not by the Customs office itself. The information available is that which is retrieved from FMIS.

In view of the non-availability of records to verify the customs duty, Audit was unable to perform tests of transactions or link them with receipts from NRO. Therefore, Audit Scope limitation is placed on the entire amount appearing under customs duty.

All amounts are in Australian Dollar

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 \$1,058,711 (\$1,132,400 prior year) is received as dividend from Digicel Nauru during the financial year which has been consolidated as proceeds from investment activities.

**Fishing License Income:**

During the financial year 2017-18, the total income provided, after considering supplementary appropriation against Fishing Licenses was \$42,887,745 (\$46,896,970 prior year). The actual income earned was \$46,363,043 (\$46,896,970 prior year) thus making a surplus income of \$3,475,298 during the year.

Brief details are tabled below:

Particulars	Budget 2017-18	Actuals receipts 2017-18
Support vessel charges	126,056	185,546.67
Purse Seine Revenue - Licensing	917,688	536,980.16
Purse Seine Revenue - Fishing days	41,844,001	45,640,516.62
	<b>42,887,745</b>	<b>46,363,043.45</b>

All invoices towards License fee are raised by NFMRA and the payment is directly deposited into the Treasury Bank account. Treasury credits when payments received into the bank account and do not maintain any record of invoices raised against this income. Furthermore, there is no co-ordination in reconciling this account between the Treasury and NFMRA.

Invoices are raised by NFMRA and no records are maintained for the receipts of payments, thus, audit is unable to scrutinize invoices and verify whether all invoices have been paid, if there are any pending payments and whether there are any missing invoices. Invoices are raised in US dollars, and value of invoice may change at the time of receipt of payments due to shifts in currency rates. Treasury and NFMRA do not record payments received against relevant invoices, thus audit was unable to match payments with invoices.

It is essential that a register is maintained to record payments against invoices. The entry of the invoice details and payments received against each invoice will help to record the receipt of income and also any loss or gain made due to exchange rate fluctuation against each invoice. It is recommended that Treasury and NFMRA maintain a register by including columns in it as provided below:

*All amounts are in Australian Dollar*

S.No.	Invoice Number	Date	Customer Name	Currency	Invoice Value Total	Amount due amount in AUD	Due date	Total amount Received	Date of receipt	Outstanding Balance	Fluctuation Loss/earning	Balance amount Due	Invoice Status
1													
2													
3													
4													

### **Trade Activities : Visa Revenue (Note 18)**

Particulars	2017-18 Budget after considering Supp. Budget	2017-18 Actuals	Prior year (2016-17) Actuals
Trading Activities - Visa Revenue	20,384,910	28,946,095	22,697,604

There was a surplus receipt of \$8,561,185 than the actual budgeted revenue against visa collection during the year.

However, against the account head 1335, RPC Visa fee, the amount received as per FMIS was \$1,419,000; whereas as per the financial statement the amount received is \$1,994,431 thus leaving a difference of \$575,531 between FMIS and Financial Statements.

It was clarified that the variance reflected was due to receipt against prior year invoices (account receivables). However, there was no receivable shown in the prior year annual financials since there was insufficient information available to substantiate carried forward balances in FMIS.

The receivable was not reflected in the Non-Current Assets & Liabilities as the Accounts were prepared with IPSAS cash basis of accounting. However, a variance of \$12,158,983 between FMIS and Financial statement appeared as receivable in the prior year 2016-17. According to the management, the \$575,531 received during the current year 2017-18 is against this outstanding.

### **Outstanding audit observations seeking management response: SCOPE LIMITATION**

We have issued 11 Requisition for Information (RFI) memos and several Preliminary Observation memos and e-mail queries, and follow-ups seeking management to response to RFIs and POMs. All the queries were responded by the Finance Department very promptly although some of the issues with Customs Department and NFMRA were not resolved due to lack of information available with the management. Thus, Audit is unable to conclude some of the revenue issues that have financial implications, system oriented controls management and the accuracy of the financial information included in the financial statements. These are subject to review for inclusion or exclusion from the management letter.

All amounts are in Australian Dollar

**Going Concern:**

1. The accompanying Annual Financial statement for the year 2017-18 have been prepared assuming that the Government will establish its fair net worth, i.e. its value of net Assets and Liabilities as at 30.6.2018. Although there is considerable reduction in the Government's net Liability, the liability is still over and above the equity of the government.

Although uncertainty still prevails on valuation of an additional anticipated liability of approximately \$48.25 million, which has not been considered as a legitimate liability of the government, it's a matter of concern accumulating this debit as interest is payable @ approximately \$ 3,337.94 per day on it.

Government's plan in regard to this matter has not described in the Annual Report. The Financial Statement does not include any adjustments or plans relating to source of adjustments to recover from this carrying liability.

2. Certain department's inability to keep proper records, as required under International Accounting Standards (IAS) is also a major concern to audit. Audit finds lot of flaws in maintaining the proper books of records and also system related errors and 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 have been ratified or removed year after year 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 2017-18 Annual Financials have decreased.

*All amounts are in Australian Dollar*

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

If the management comprehensively provided information on the issues contained in the draft management letter, and revised the Annual Financial statements, we will be constrained to express a 'Qualified' Opinion' on the financial statements.



**MANOHARAN NAIR**  
**AUDITOR GENERAL**

**Dated : 12<sup>th</sup> April 2021**



## AUDIT RECOMMENDATIONS:

### Our Recommendations to the Management is that:

**Addresses** comprehensively the scope limitation item and matters of material importance included in this draft management letter with utmost urgency and responsibility.

**Provide** the schedule on Property, Plant & Equipment with correct impact on fair net assets value in accordance with depreciation policy.

**Prepare** a well-structured asset register to capture existing assets, disposals, fully depreciated assets and acquisitions and also non-cash asset donations. Its 'fully depreciated working-assets' / 'charged off assets' may be tracked through an Asset register in hard and soft copy forms for better internal control.

**Establishes** an accounting policy for accounting of non-cash donations, its valuation and include the same in financial statements.

**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.

**Discloses** its exact investment (original and current fair value) in the SOEs from which GON expects/receives dividends.

**Advise** 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.

**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.

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

