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Audit for an impact for the public

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Honourable Speaker

Maneaba ni Maungatabu

Ambo

Dear Honourable Speaker,

Auditor General's Special Audit report for Air Kiribati Limited (AKL) for years 2015 to October 2020

In pursuant to section 22 (g) of the Kiribati Audit Act 2017, I am pleased to submit the special audit report on Air Kiribati Limited (AKL) for the years 2015 to October 2020.

Yours sincerely,

Mr Eriati Tauma Manaima

Auditor General



**Auditor General's Special Audit report for AKL (Air
Kiribati Ltd) for the years 2015 to Oct 2020.**

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1. ABBREVIATIONS

AKL – Air Kiribati Ltd

AOC – Air Operators Certificate

AOG – Aircraft on Ground

CAAK – Civil Aviation Authority of Kiribati

CEO – Chief Executive Officer

CM – Commercial Manager

GHE – Ground Handling Equipment

GSE – Ground Support Equipment

GoK – Government of Kiribati

ISSAI – International Standards for Supreme Audit Institutions

KFL – Kiribati Fish Ltd

LCDF – Local Contribution Development Fund.

MICTTD – Ministry of Information Communication Transport and Tourism Development.

MFED – Ministry of Finance and Economic Development

MoU – Memorandum of Understanding

PV – Payment Vouchers

1. INTRODUCTION

This Special Audit on AKL was carried out as part of my statutory duties mandated under sections: 10(1) and 40A of the Public Finance (Control and Audit) Ordinance, 1976 and relevant provisions of the Audit Act, 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI).

Our audit involves performing procedures to obtain sufficient appropriate audit evidence to support our conclusion. The procedures performed depend on the auditor's professional judgement, including assessing the risk of material non-compliance, whether due to fraud or error. The audit procedures performed are those we believe are appropriate in the circumstances. We believe that the audit evidence gathered is sufficient and appropriate to provide basis for our conclusion.

The Special Audit of AKL has now been completed and I am pleased to present this special audit report which provides our findings and analysis, implications and recommendations and our overall conclusion.

2. BACKGROUND INFORMATION

AKL requests from Cabinet through the MICTTD and MFED, financial support to clear off all outstanding debts both held in country and overseas.

To support this request, AKL made a statement detailing overdue payments including other management issues related to prior years which had negatively affected AKL's financial viability.

Considering the significance of the issues raised, Government through the Minister of Finance requested for a Special Audit to be carried out at AKL.

3. AUDIT OBJECTIVES

Our audit objectives are to verify whether:

- AKL issues as outlined in the Appendix 1 are true and they occur.
- AKL issues have complied with the relevant laws, rules, and instructions.

4. AUDIT SCOPE AND METHODOLOGY

Audit Scope:

Our audit scope covered the issues illustrated in the Information Paper (Appendix 1). Each issue relates to different years but covering the periods 2015 to Oct 2020. In addition to the Information Paper, our scope also includes issues that arise throughout our audit, and which falls relevant to the financial period covered in this special audit.

Methodology:

Our audit methodology included the following:

- Interview with relevant parties/key personnel.
- We reviewed, assessed, and analysed relevant AKLs accounting and other records which include General Ledgers, Bank statements, Payment Vouchers, Deposit Books, Contract Appointments, Conditions of Service, Budgets, Board Minutes, Leasing agreements and Inventory records.
- Checked documents related to Projects under review, which include Project Documents, Cabinet Papers, MFED warrants and MFED PVs.
- We also reviewed Cabinet extracts especially those related to the audit.
- Use of the third-party confirmations.

5. SCOPE LIMITATION

The following imposed limitation of scope on our audit:

- Board minutes for the years 2018 and 2019 were missing.
- Not all Board minutes in 2017 were available.
- No Budgets available for 2019 and 2020
- Some consultancy contract appointments were not available.
- Dash 8 aircraft Lease agreement was missing.
- The original copy of Pionair Operations and Maintenance Agreement was not available.

7. FINDINGS AND ANALYSIS

7.1 AKL COMMERCIAL MANAGER PROJECT

AKL reported that there was an overspent of \$64,900.42 in the funding for Commercial Manager (*Manager A*). The actual funding was \$230,000 from the 2016 Local Contribution to the Development Fund (LCDF) while the actual spending was \$294,900.42, hence the overspent.

Findings:

- We agreed that there was an overspent, but the amount was \$68,650 according to our calculations on CMs pay throughout the contract period. Refer table below for details:

Table 1: Commercial Manager allowances paid.

Period	Total Actual Spending	Project Fund Warranted	Overspending
8/3/2018-30/06/2020	\$ 298,650.73	\$230,000	\$68,650

- Contract agreements for certain periods were missing therefore payments made within those periods were considered questionable. Based on our review of the PVs provided the total amount paid without contract agreements was \$126k+. Refer table below for details:

Table 2: Missing Contract Agreements & their values.

Name of Consultant	Contract started	Contract Ended	Contract period	Remarks	Payments total \$
Manager A	14-Feb-18	14-Apr-18	2 months	Contract Agreement (CA) sighted ok	15,040.83
"	15-Apr-18	25-Sep-18	5 months	Missing CA	15,515.64
"	26-Sep-18	22-Nov-18	2 months	C A sighted ok	17,535.62
"	23-Nov-18	15-Apr-19	5 months	Missing CA	32,193.57
"	16-Apr-19	16-Oct-19	6 months	C A sighted ok	63,963.66
"	17-Oct-19	1-Jul-20	8 months	Missing CA	79,064.56

Observations and Implications

- While the budget overspending(s) indicated poor management of AKL funds by her former management team, it also highlighted a broader issue relating to the lack of appropriate financial regulation/Instructions and guidelines.
- Without proper regulation/guidelines the restricted use of funds for their intended purposes within AKL would be difficult to control. This had resulted in the overspending of this project fund and improper utilisation of other funds to meet the overspent.
- Meeting the overspending from the Company's current account would cause other budgets outputs to deplete and indeed put the overall business in financial difficulties.
- Without the contract agreements for certain periods for the CM, the payments made are deemed improper.

Recommendation

- The above anomaly indicated failure of former management in managing project funds. For ongoing and future projects, we recommend that current management should either adopt Financial Regulation/Instructions or formulate policies/procedures to clearly provide guidelines on how funds should be utilised and acquitted. Government's existing financial guidelines on transfer of funds would be a good start for AKL to look into for improvement on the overall financial management.

Management response

This does not address the anomaly of the project validity and why the CM was employed it should better be identified if any real value was obtained from the entire expenditure. This role is now being fulfilled more effectively for a fraction of the original cost, please note AKL implemented this correction along with many others

Current AKL management should continue as planned and correct the errors of the past whilst implementing preventative actions to avoid the same mistake repeating. Thank you for highlighting this anomaly and the work already taken to remedy the situation.

7.2 AKL EXPERT TEAM PROJECT (NZ AOC SET UP)

AKL reported that there was an overspent of \$345,623.38 for the Expert Team Project. The actual funding from the 2016 LCDF approved to pay this Expert team was AUD\$125,800 however AKL spent a total of AUD\$471,423.38, hence the overspent.

Findings

- We agreed that there was an overspent in Expert team project fund, but the amount was \$349k as opposed to \$345k an amount claimed by AKL. Refer Table 3 for details.
- Expert team Project fund of \$125,800 was received by AKL on 9/6/2017 for the purpose of paying the experts who were to work on AKL international air service market route

analysis and business plan and to present their findings and recommendation to the Government of Kiribati for further consideration, prior the implementation of the project.

- The experts were recruited in 2019 with Annual Salary packages of \$155k, \$120k and \$150k respectively but their total already exceeded the funding of \$125k, approved in 2017. (Refer table 3).

Table 3: Comparison of Payments made to experts versus approved funding.

Name	Contract started	Annual Salary	Audit figure Total Pay \$	AKL figure Total Pay \$	Variance \$	Approved Funding \$	Variance \$
Expert A	10/09/19	\$155k	105,495.53	101,346.00	4,149.53		
Expert B	08/07/19	\$120k	164,105.46	164,105.48	-0.02		
Expert C	06/05/19	\$150k	205,971.75	205,971.75	0.00		
Total			475,572.74	471,423.23	4,149.51	125,800.00	349,772.74

- Further to the above, we also noted that one of the experts continued to receive his pays although his contract period lapsed. In the absence of the contract renewal the payments made throughout those periods were considered improper. Refer Table 4 below.

Table 4: Contract periods as per the Contract agreements:

Name	Contract Started	Contract Ended	Contract period approved	Annual Salary	Remarks
Expert A	10/9/2019	1/7/2020	3 years	\$155,000	
Expert B	8/7/2019	31/7/2020	3months	\$120,000	<i>Salary payments continued for 1 year. A total of \$65k was noted to have been wrongly paid to Dan Webb.</i>
Expert C	6/5/2019	26/6/2020	3 years	\$150,800	
Total				\$425,800	

Observations and Implications:

- The lack of appropriate financial regulations and guidelines as mentioned earlier also contributes to this problem.
- We noted that former management continued to pay the expats even though funds were already exhausted.
- When project costs exceeded approved funding, AKL will end up using the company's operating budget thus may result in the overspending of company's operating budget.
- Payments made outside the contract period were improper hence reflects on former managements failure in their responsibility to ensure AKL funds are properly controlled.

Recommendation:

- We recommend that AKL urgently either adopt comprehensive financial rules and regulations or formulate financial policies and procedures to improve the SOE's overall financial management.
- We recommend that for future undertakings, AKL should restrict use of funds according to:
 - the allocated budgets
 - approved period
 - and to formally request for additional funding if required.

Management response:

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action

7.3 AKL CONSULTANT

Findings

- *Consultant A* was hired as a consultant working remote. He started with AKL in July 2016 with a fortnight salary of \$8,400 that is equivalent to \$218,400 annual salary.
- We doubted how *Consultant A* was recruited in the first place, since there was no contract appointment available, not even the evidence that Board has approved funding to pay for his service.

- We were even unable to justify if such consultancy service had gone through the proper procurement process in absence of supporting documentations.
- It was not clear what consultancy service he was providing as the contract agreement nor term of reference were not available.
- Until now *Consultant A* continues his service with AKL and being paid even though Management had realized that his engagement with AKL was not formally endorsed.
- The table below shows total payment made to Richard since 2016:

Table 5: Total payments for Consultancy Service since July 2016 to Sept 2020	
Period	Total amount paid
14/7/2016-31/12/2016	\$ 46,005.00
1/1/2017-31/12/2017	\$ 96,759.00
1/1/2018-31/12/2018	\$ 112,855.09
1/1/2019-30/12/2019	\$ 119,933.00
1/1/2020-31/3/2020	\$ 24,997.25
01/08-30/9/2020	\$ 10,000.00
Total Payment	\$ 410,549.34

- The total amount stated in AKLs information paper (appendix 1) of \$330,989.68 was less than the total we obtained from PVs.

Observations and Implication

- Consultancy engagements which were not properly endorsed, no proper contracts entered-into between AKL and consultant, yet involves significant amounts of money, was seriously an indication of unauthorized use of funds.

Recommendation

We recommend that the current management should quickly correct this irregularity by terminating the engagement.

Management response:

This issue has been identified to the board, continued engagement is temporary and a result of the need to extract single point knowledge and information from this person before

severing ties, losing this information could undermine the project and be far more costly, the situation is being actively managed and was so reported

This is being managed.

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action.

7.4 AKL DASH 8

AKL reported that there was funding received for an outright purchase of Dash 8 aircraft and spare parts, however, instead of the outright purchase the aircraft and spares were purchased on lease.

Findings

- Audit noted that the Government of Kiribati (GoK) provided AKL in FY2017 the sum of \$4m on PV #045/17 and \$1.7m on PV #059/17 therefore in total AKL had received \$5.7m. This was funded from the LCDF.
- The project documents stated purpose of the funding which was for the Purchase of DASH 8 100 series to enable AKL to obtain its International Airline Operators Certificate. Lease to buy option was not stated in the project documents.
- We were unable to testify that the decision to Lease the Dash 8 instead of an outright purchase was endorsed by the Board in the absence of the Board minutes for the years 2017, 2018 and 2019. Even Cabinet extracts did not specify how the purchase of the aircraft should be made.
- There was no evidence of any formal request made to Cabinet by former management nor any Cabinet extract discussing AKL's request for Leasing Dash 8 instead of an outright purchase.
- Dash 8 Aircraft Lease Agreement was not available. This had hindered the audit from verifying requirements of the lease and who had signed the agreement.

- Since the lease started in 2017 until July 2020, the total payments made for lease liability was \$5.3m (AUD). From the total warranted fund of \$5.7m in 2017, there seemed to be a balance of about \$400k left with AKL as of July 2020 according to our calculations. However, AKL through the former management need to explain where is the remaining \$400k.

Table 6: Lease Schedule balance with AKL Report as of July 2020.

Agreement	Date Lease started	Lease Amount \$ USD (based on the schedule of payment maintained by AKL)	Current Lease Liability Balance as per Avmax Schedule \$ AUD
Dash 8-103 Aircraft Lease	6/8/2017	\$ 3,927,500.00	\$1,085,941.95
Dash 8 Spare parts	10/4/2017	\$ 772,817.00	\$598,385.18
		\$ 4,700,317.00	\$1,684,327.12

Observations and Implications:

- The former management failed to inform Cabinet of the change in their dealing for Dash 8, therefore confirmed their deviation from the agreed intended purpose of the fund hence in our view, AKL has breached sec. 13 (1) (a) to (e) of the SOE Act, 2013.
- If it had been an outright purchase for Dash 8 from the start, AKL could have saved the interest charges which were included in the Lease payments.
- Without the acquittal reports it would be difficult to know whether the remaining fund of \$400k had been used for the intended purpose or not.

Recommendation:

- We recommend that AKL through the former management should explain where the remaining \$400k is.

- We recommend that board minutes should be well safeguarded to avoid issues of missing board minutes.
- We highly recommend that future Project Funds are utilized for their intended purposes and acquittal reports are prepared on a timely basis.
- We recommend that AKL seek approval from Cabinet whenever AKL enters any significant dealings for instance the change from the outright purchase to leasing of Dash 8. (Refer sec. 13 (1) (a) to (e) of the SOE Act, 2013)

Management Response:

This is already done ISO standards will be trained and implemented, why was this recommendation not made to previous management.

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action.

7.5 GROUND HANDLING EQUIPMENT PROJECT

AKL reported that there was full funding for certain ground support equipment (GSE), however there is still an outstanding balance of \$190,929.92 owing to KFL.

Findings and analysis:

- We note that the Memorandum of Understanding (MoU) for GSE was signed by the Human Resource Manager and that the amount on the signed MoU was originally \$103,786, which was then amended on the contract by crossing it out "~~\$103,786~~" and replacing it with the following "...about \$200 thousand NZD". Refer to Appendix 2.
- Based on the information provided to us, we found that there are deviations from the MoU, such as:
 - KFL invoiced a total amount of \$363,192.42 which is greater than the amount stated in the MoU which is "...about \$200 thousand NZD".

- There was another arrangement where AKL offset its debt to KFL with KFL's freight charges for chilled fish. AKL's option of offsetting the cost of GSE against the KFL's chilled fish was not disclosed to government.
- From the total \$359K funding AKL received for the GSE [\$304K from Taiwan Government (RoC) Grant and a further \$55k government grant], only \$55K was paid to KFL. AKL through the former management need to explain the remaining \$304K.
- There was also no acquittal process of this funding to the Ministry of Finance, therefore we were not able to verify how the fund had been utilized.
- While KAO notes the remaining lease balance with KFL in the amount of around AUD\$190K, we question its binding over AKL because (i) "...around NZD\$200K" is the amount stated in the MoU; (ii) according to AKL's documents they had already paid AUD\$172K, which in our view meets the definition of "...around NZD\$200K; (iii) the remaining lease balance of around AUD\$190K is over and above the agreed amount in the MoU; and (iv) KAO could not find any new agreement or amendment to the existing MoU including legal advice to AKL on this issue.

Observations and Implications

- The implication of AKL not using the funding for the purpose it was intended for, resulted in issues with its ability to settle this loan.
- Also, the implication of having no acquittal for this funding resulted in poor progress monitoring and non-compliance with utilization of fund.
- This is another demonstration on the implication of the lack of appropriate financial regulation/policy and guidelines.

Recommendations:

- We recommend that funding received from the government should be strictly used for the intended purpose the funding is warranted for.
- We also recommend that AKL and the responsible ministries (MICTTD and MFED) should implement a proper acquittal process after funds are released for such projects.
- We also recommend that AKL should first seek legal guidance whether they are liable to pay the remaining balance of the lease in the amount of around \$190K or not.

- We further recommend that current management should either adopt Financial Regulations/instruction or formulate Financial Policies and procedures to clearly provide guidelines on how funds should be utilised and acquitted.

Management Response:

This is agreed and has been understood since its lack was noted corrective actions are underway

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action

7.6 PACIFIC TURBINE BRISBANE (PTB) ENGINES

AKL reported that certain engines had been misplaced and forgotten but this has now been resolved.

Findings:

Based on the information provided to us (auditors), we do not have any comments on this claim due to the following reasons:

- i. There was no evidence of missing engines; and
- ii. Management confirmed that the issue had already been resolved.

Management Response:

AKL noted the engines were “treated” as misplaced or lost due to the extended period the engines have been unattended and held in PTB, there are many emails to this effect and whilst the situation has been resolved in principle corrective actions are still underway, Covid makes this difficult and protracted.

7.7 AVMAX CORE CHARGES

AKL reported that there was a balance on aircraft lease and spares lease amounting to over a million USD. When major spares are bought on exchange basis, there is a need to return the old part to avoid a core charge within a time limit. AKL identified that this was not happening, hence the liability of USD151,385.61 with Avmax carried forward from 2019.

Findings and analysis:

- Based on our findings, AKL owed USD\$151,432.95 to Avmax. This however is USD\$47.34 more than what AKL stated in its report.
- We found that spare parts were sent late by 3 to 12 months, hence costing AKL core charges.
- The root cause of the core charge was the failure in the internal system control of AKL to ensure that the spares are returned well on time to Avmax to avoid core charges.

Observations and Implications:

Non-compliance to the terms of exchange of Leased Spare parts by AKL responsible officers had resulted in incurring extra cost.

Recommendation:

Noting that this is an ongoing deal, we recommend that current management makes sure responsible officers send to Avmax spare parts on exchange basis on time to avoid core charges.

Management Response:

This suggestion should have been made to previous management; current management began rectifying this issue as soon as it was reasonably possible after its detection

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action

7.8 ENGINEERING OVERRUNS

The issue of engineering overrun was due to a long outstanding ignorance in maintenance and planning requirements, poor practice and improper maintenance of logs and maintenance schedules. Not only does poor maintenance have “Safety Concerns”. In this case the aircraft became AOG grounding the fleet, and the associated loss of revenue also amounted to approximately \$1,781,821.51.

Findings

- Audit noted that the issue was related to Aircrafts maintenance and timing lapsed for spare parts. Given the technical nature of the issue along with the fact that KAO does not have the technical expertise to audit the spare parts and aircraft maintenance we did not carry out any testing on the issue.

Recommendations

- We recommend that this issue is referred to Government’s aviation regulator which is the Civil Aviation Authority of Kiribati (CAAK).

Management Response:

Nevertheless, current management has corrected the issue.

This along with other issues was reported to the CAAK when identified, this does not require a recommendation.

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action.

7.9 MONEY LENDING & SIGNING ALLOWANCE

AKL reported that certain staff within the company give out loans to others and this money is then recovered through deductions from payroll. There is no formal agreement for loan and deductions from payroll. As far as legal requirements go, this practice must be considered dubious.

AKL further reported that the HR manager charges the company a fee of \$20 for signing on behalf of the CEO.

Findings

- We confirm that social fund loans and contributions were deducted from staff's pay, and this does not have an impact on the company's financial statements as the fund belongs to the Staff Social Fund.
- We also confirm that the HR Manager received an allowance of \$20 per day whenever she was in charge, but the practice ceased in September 2020. In addition, the practice was also applied to other staff who had been given the chance to take over higher positions. We found that this practice did not conform to AKL's condition of service.

Observations and Implications:

- Processing social fund deductions from payroll is a cost to AKL in terms of time consumed when social fund deductions were processed by payroll officer, extra tasks to payroll officer, and lastly when the deductions were paid the Company's cheque leaf was used.
- Payment of the above-mentioned allowances to the HR Manager and others did not conform with AKL's condition of service.

Recommendation:

- We recommend that management cease deduction of social fund loans and contributions from payroll.
- We also recommend that the signing allowance practice should cease and that all allowances paid out for this practice should be recovered.

Management Response:

Already corrected.

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action

7.10 AKL HANGER PROJECT

AKL reported that funding of AUD \$3million was approved for the maintenance/construction of a hanger, however the fund was not received.

AKL also reported there were also funds approved for buildings work that were not allocated fully, the actual figure is unknown but estimated at several hundred thousand dollars.

Findings and analysis:

- Based on our review of the cabinet extracts provided to us, we could not find evidence to support AKL's claim that there was an approved funding of AUD\$3million for the hanger and building project. We can only confirm that AUD\$1million was approved for the hanger. Please refer to Supplementary Budget (1) 2017 (LCDF).
- We also confirm that out of the approved funding of AUD\$1million, AUD\$880k was repurposed to finance AKL's immediate cash flow requirements, and AUD\$10,192 was paid to the Environmental Consultant, therefore a balance of \$109,744.99 remained with MFED in 2019.

Observations and Implications:

- Lack of proper financial regulations and guidelines also contributed to this problem.
- Repurposing of this project fund has put an end to the initial project which was the construction of new hanger and building.

Recommendation:

- AKL should ensure all operating costs are budgeted for so to avoid the use of project funds which had already been committed for developments.

Management Response

This error is attributable to previous AKL management not current management.

Continue as planned the error is acknowledged and predates the period of existing management responsibility, thank you for highlighting the issue and providing prompt corrective action.

7.11 CSO And Cabinet Paper Approvals/Funding Allocation

AKL has committed to agree upon a document that explains all procedures and requirements associated with the appropriation of approved funds. It is requested that the size and trigger of any tranche payments is known and agreed ahead of time so that a drip feed of funds is avoided in the future.

Findings:

Audit found no audit-related issues with this claim.

Management Response

The mode and means of payment of funds, the timing and amount being unknown, if avoided would have allowed AKL to operate with a positive bank balance rather than a negative one.

7.12 Issue with Signatures on the Pionair Operations & Maintenance Agreement

The former Chairman and board members reported that the signatures of the Chairman and one Board member on the Pionair Operations & Maintenance Agreement, were forged or copied, as they do not recall signing such contract.

Findings:

- Based on the reviews of face-to-face interviews with the former chairman, former board members, and the current Management and Board of AKL, Audit would like to highlight that there was an issue with the signing of the agreement for Operations

and Maintenance. The former chairman and board members claimed that the signatures on the Operations and Maintenance agreement, were either forged or copied from their signatures on other agreements. Nevertheless, payments have been made to Pionair based on the agreement.

- Audit further noted that the original copy of the agreement was not available with AKL and its relevant ministry, MICTTD.
- Nevertheless, as per the interview with the current management and board, AKL has recently terminated the agreements with Pionair.

Observations & Implications:

- Forging or copying signatures is unethical, particularly a felony to the state given a significant amount of public funds, has been expended for such agreement.
- Maintaining original agreements is critical for future reference, especially for verifying true copies of documentation. However, with the absence of the original agreements, there is a limitation to our Audit's process in verifying the signatures on the agreement. Hence, requiring further comprehensive and technical review of the issue.

Recommendations:

- Given the significance and technicality of this issue, Audit recommends further independent and comprehensive investigation or enquiry.

OVERALL CONCLUSIONS

Based on the findings and observations above, we have confirmed that AKL issues as reported in the Appendix 1 were true and they existed.

Most of the issues were found not in compliance with related governing laws, regulations, and instructions.

In addition, we would like to highlight the issue with the Pionair Agreement, of which we cannot draw our conclusion on given the seriousness and technicality of the issue. Therefore, we recommend further independent and comprehensive investigation or enquiry.

Finally, we would like to acknowledge the efforts of the current Board and Management of AKL in reporting and addressing these anomalous issues.



INFORMATION PAPER – AKL HISTORICAL

1. PURPOSE

AKL has historical issues that are affecting current operations, they require resolution as part of the reset to the company that is known to be needed, and these issues have financial consequences that are detailed herein.

2. Background

As an SOE AKL has many financial reporting requirements and is now under scrutiny due to the lack of previous financial or statutory required reports being submitted

The current management are aggressively actioning recovery, once sufficient funds are made available the reset process will be completed

It is planned for AKL to become the “best reporting SOE” this can be rapidly achieved with committed support from stakeholders in overcoming historical backlogs and the hurdles now present. This year AKL will submit all statutory reports

3. Reporting

For any organization accountable and transparent reporting is a key requirement probably more so in aviation due to the extra requirements of the Aviation Act. Accurate data gathering and recording along with on time reporting is essential in aviation, AKL however has submitted very few reports at all since 2015, and many statutory reports

seem to simply be missing with no explanation or evidence of accountability having been pursued.

Examples of missing reports are listed but not limited to those below

Annual Returns – pending lodgment since 2016

Tax Returns – pending lodgment since 2017

Audited Financials – pending audit since the failed audit of 2018

As mentioned previously from 2020 onwards all required reports have and will be submitted

The following are to some degree or other anomalous

4. Appendix 1 - AKL Commercial Manager

This was funding received for the Commercial Manager Project. Please see below table which shows the total approved versus what was spent.

Project Number	Team Members	Approved Funding	Actual Spending
		(as per Appendix 1)	
H2404G126207	Ian Patrick	\$230,000.00	\$294,900.42

5. Appendix 2 – AKL Expert Team

This is what was estimated to be the cost of New Zealand AOC setup. Please see below table which shows the total approved versus what has so far been consumed

Project Number	Team Members	Approved Funding	Actual Spending
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		(as per Appendix 2)	
H2404G125217	Dan Webb	-	\$164,105.48
H2404G125217	Dean Lyes	-	\$205,971.75
H2404G125217	Joshka Nixion	-	\$101,346.15
H2404G125217	Total	\$125,800.00	\$471,423.38

Richard Holstein was hired as a consultant and paid \$300,989.68 till date. There is known formal approval of funding for this payment, none has been found to date

6. Appendix 3 – AKL Dash 8

The funding was received for the outright purchase of the Dash 8 aircraft and spares. Please see attached Documents 2 and 3 which shows the aircraft and spares are still under partial leased to buy option which costs AKL USD 44,561.87 per month in liability.

7. Appendix 4 – Ground Handling Equipment

Whilst certain GSE was funded, with full funds received, there is still an outstanding balance on the books of AKL, the total outstanding is \$190,929.92. Please refer to Document 2 showing statement of outstanding as per KFL.

8. Appendix 5 – PTB Engines

AKL has been spending USD 95/hour on leasing for a PT6 engine for a Y12 aircraft, it is fitted to the aircraft in Xmas. Upon audit, it was discovered that AKL owns 5 operational engines with resalable values that could have in various ways offset this requirement. Certain engines had even been misplaced or were forgotten; this has now been resolved.

These engines have been valued and are estimated to give AKL USD 1.5+ million in spares, credit has negotiated with PBT and will be used against a power by the hour program.

9. Appendix 6 – Avmax Core Charges

Avmax is the company AKL has bought the DASH 8 from and currently there is a balance on aircraft lease and spares lease amounting to over a million USD. When major spares are bought on exchange basis, there is a need to return the old part to avoid a core charge within a time limit. It has been identified that this was not happening and AKL currently has a liability of USD 151,385.61 carried forward from 2019 which could have been avoided had the spares been tracked and returned as normal. Avmax has placed AKL account on prepayment basis until such time that we pay this balance which is a challenge due to lack of funding.

10. Appendix 7 – Engineering Overruns

The original CSO requested was amended to include the cost of the engineering overruns that occurred this cost is \$3,158,605.76 as an additional funding requirement. Please refer to appendix 7 detailing the maintenance requirements and cost to get the aircraft serviceable again. These issues were due to a long outstanding ignorance in maintenance and planning requirements, poor practice and improper maintenance of logs and maintenance schedules. Not only does poor maintenance have “Safety Concerns” in this case the aircraft became AOG grounding the fleet, the associated loss of revenue amounted to approximately \$1,781,912.51 in comparison to forecasted till end of August.

11. Money Lending

It is discovered that certain staff within the company give out loans to others and this money is then recovered through deductions from payroll. There is no paper trail in terms of a formal agreement for loan and approval for deductions from payroll unlike those from registered entities such as KPF, DBK and KHC. As far as legal requirements go this practice must be considered dubious.

It has also been discovered that the HR manager charges the company a fee of 20\$ for signing on behalf of the CEO, this was not known nor approved of

12. AKL Hanger Approved Funding

It has been reported that funding of AUD \$3 million was approved for the maintenance/construction of a hanger, apparently this money was not received. Seemingly this \$3 million USD was reallocated elsewhere. No documentation or approval is known in support of the reallocation.

Apparently there were also funds approved for buildings work that were not allocated fully, the actual figure is unknown but estimated at several hundred thousand dollars

13. CSO and Cabinet Paper Approvals/Funding Allocation

AKL has committed to agree upon a document that explains all procedures and requirements associated with the appropriation of approved funds. It is requested that the size and trigger of any tranche payments is known and agreed ahead of time so that a drip feed of funds is avoided in the future

14. Recommendation

With the COVID 19 pandemic, there is a perfect storm situation and an opportunity for all historical issues and overruns to be corrected whilst acquiring the unrestricted AOC as desired. The reset will also allow AKL to become less dependent upon CSO. Please refer to below breakdown and tables showing what funds have been approved but are still pending disbursement

a. It is requested the remaining approved funding amounting to \$6,165,947.20 is allocated to AKL

	\$
Original CSO requested according to the 2020 Budget	\$6,308,048.00
Impact of COVID-19	\$1,633,219.00
Deferred Maintenance	\$3,158,605.76
Total CSO required for 2020	\$11,099,872.76
Less: CSO paid	-\$4,394,271.14
Less: Solomons Airlines CSO not required for Apr-Jun 20	-\$330,000.00
Less: deferred maintenance already incurred	-\$209,654.42
CSO remaining requested	\$6,165,947.20

b. It is requested that the approved funding amount of \$13.4 million be allocated, this includes \$7.2 million owing to KPF in respect to the loan for Twin Otter not received; this loan was guaranteed by the Government and would best be resolved

Disbursement of this approved fund would allow for the clearance of all current debts

Schedule of Debts - July 2020				
Loans	Original Amount	Interest Rate %	Repayments Approx monthly (AUD)	Current Balance Approx (AUD)
KPF Loan 1 (Purchase of a Twin Otter Aircraft)	2,160,000.00	0.085	28513.33	899,418.61
KPF Loan 2 (aircraft not received) - refer note 1 below	4,650,000.00	0.085	0	7,200,000.00
KFL Loan - Ground Handling Equipment	304,694.23	0	15,000.00	190,974.92
Avmax Dash 8 Aircraft Finance Lease (approx AUD)	2,009,332.31	0.0795	40,693.96	1,085,929.55
Avmax Dash 8 Spares Finance Lease (approx AUD)	1,087,808.17	0.0795	22,030.81	597,600.62
Koil (Prior period fuel charges)	3,459,282.00	0	-	3,459,282.00
Total Debts				\$ 13,433,205.71
Notes				
1. KPF Loan 2 for \$7.2 million is written off and is passed to the Government to handle. However this is still not resolved. KPF is claiming this from Air Kiribati.				
2. In addition to the above, AKL pays for lease of Twin Otter. Monthly lease payments are approx \$65,000.00				

Memorandum of Understanding on the Purchasing Ground Handling Equipment

An Understanding entered into between Kiribati Fish Limited (KFL) whose address is Betio Wharf, Betio, Tarawa, Kiribati and Air Kiribati Limited (AKL) Bonriki International Airport, Tarawa, Kiribati

Background.

Based on friendly discussion between Air Kiribati Limited and Kiribati Fish Limited, it is hereby agreed that KFL will assist AKL in procuring air port ground handling equipment from Flight GSE Limited in accordance to the following terms:-

1. AKL will finalize the final design and place order with Flight GSE Limited, New Zealand for air port ground handling equipment provided in the attachment but excluding the Push Bell Loader. The total cost is estimated to be equal to the sum of \$103,796.00 *about \$200 thousand NZD*
2. In addition KFL will also pay for a forklift vehicle with a budget of about \$30,000.00.
3. KFL will responsible for the freighter cost of the said equipments.
4. AKL will confirm with Flight GSE Limited on the cost (CIF) of air port ground handling equipment, the cost will bill to Air Kiribati Limited.
5. AKL will forward commercial invoices from Flight GSE to KFL and give instruction to KFL to make the payment.
6. KFL will make payment to the account shown in the invoice according to the invoices and instruction from AKL.
7. AKL will take responsibility on design / order confirmation / shipment arrangement / damage or loss of equipment / receiving / installation / maintenance and insurance.
8. AKL understands that it will pay the full amount paid, including the freighter cost paid by KFL to KFL's bank account within 3 months after full

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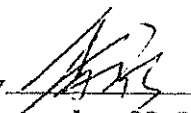
11

payment has been made. The bank account details for KFL are:

Beneficiary Name: Kiribati Fish Limited
Bank Name: ANZ Bank of Kiribati
Branch No: 8970
Account No.: 873611
SWIFT: BKIRIKIKI


9. Other affairs related to but not included in the Memorandum including any issues arises out of this Memorandum must be solved through negotiation and dialogue between the both parties.
10. The contract is made and signed in duplicates. Each party holds one original copy. Both copies of the contract are of same effect.
11. This understanding is govern by the Laws of Kiribati.

**Signed for and on behalf of
Kiribati Fish Limited**

By 
September 22, 2015

Li Chung Hong

**Signed for and on behalf of
Air Kiribati Limited**

By 
September 22, 2015
Koaa. Ekeata

