

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF



**Air Kiribati Ltd
Financial Statements
For the Year Ended 31st December 2018**

**Kiribati Audit Office
August 2021**

KIRIBATI AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati



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Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

**To the Readers of
Air Kiribati Ltd Financial Statements
For the year ended 31 December 2018**

I have audited the Financial Statements of Air Kiribati Ltd (AKL) for the year ended 31st December 2018 as required under sec 114 (2) of the Constitution, Part VII, Sec 42(4) of the Public Finances (Control and Audit) 1981 and Sec 22(1) of the Kiribati Audit Act, 2017. The Financial Statements comprise of the following:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flow
- Statement of Changes in Equity
- Notes to the Accounts

Disclaimer of Opinion

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer Opinion:

- There was no correct general ledger provided to support the balances reported in AKL's revised financial statements for financial year, 2018. This resulted in Audit's inability to verify the AKL financial statements 2018.
- The unavailability of the correct general ledger file does not only result in Audit's inability to verify the balances on the financial statements, but also this casted doubt on the accuracy and reliability of the 2018 financial statements.
- The board minutes for 2018 were not available for audit purposes.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to

obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kiribati, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

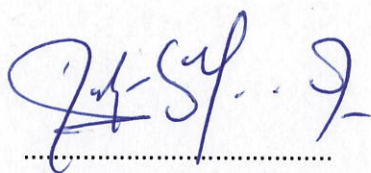
Report on other Legal and Regulatory Requirements

AKL lodged its adjusted Financial Statements on 19 May 2020, therefore indicating AKL's incompliance to Section 20 of the SOE Act 2013.

Independence

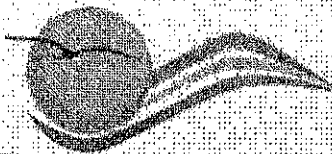
Section 114 (4) of the Kiribati Constitution stipulates that the Auditor General shall not be subject to the direction or control of any other person or authority.

Other than the audit, we have no relationship with or interest in AKL.



Mr. Eriati Tauma Manaima
Auditor General

Date: 23/07/2021



AIR KIRIBATI LIMITED

(Company No. 80 - Registered in Kiribati)

Phone: (686) 74028533 ext 204

Email: info@airkiribati.com.ki

www.airkiribati.com.ki

P. O. Box 274

Bikenibeu, Tarawa

Republic of Kiribati

Eriati Teuma Manalima,

Auditor General,

Kiribati Audit Office.

10th May 2021

Subject: 2018 Audit Endorsement Letter

Dear Madam,

We, the board of directors of Air Kiribati Ltd, hereby confirm on the endorsement of a disclaimer audit opinion of the 2018 financial statements for audit.

The reason for above is the inability of the previous AKL management and KAO to verify and explain the discrepancies between the general ledger and submitted financial reports for 2018 and historical backlogs in audit and reporting.

We vote to close off historical audits and concentrate on current accurate reporting.

Agreed and signed by:

Mr. Martin Toinga

Chairman

AKL Board of Directors

Board of Directors: Martin Toinga (Chairman); Tilde Roneti (Vice Chairman);

Monoo Mworetska (Director); Rubee Eromanga (Director); Falele Tetapo (Director).



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P. O. Box 274

Bikenibeu, Tarawa

Republic of Kiribati

Ioanna Taurannang

Senior Auditor

Kiribati Audit Office

29th April 2021

Subject: 2018 Audit Endorsement Letter

Dear Madam,

We, the board of directors of Air Kiribati Ltd, hereby confirm on the endorsement of a disclaimer audit opinion of the 2018 financial statements for audit.

The reason for above is the inability of the previous AKL management and KAO to verify and explain the discrepancies between the general ledger and submitted financial reports for 2018 and historical backlogs in audit and reporting.

We vote to close off historical audits and concentrate on current accurate reporting.

Agreed and signed by:

Mr. Martin Tofinga

Chairman

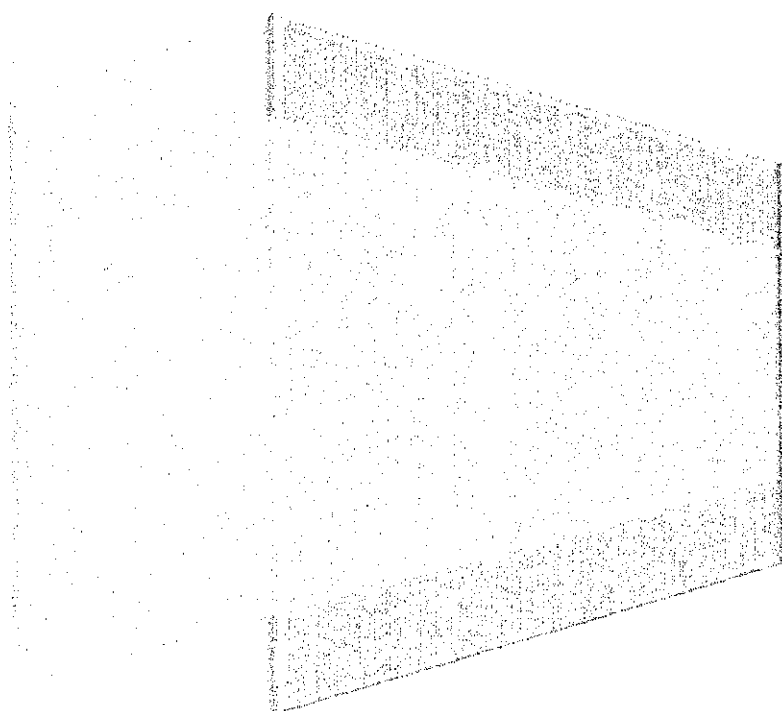
AKL Board of Directors

Board of Directors: Martin Tofinga (Chairman); Tiioa Roneti (Vice Chairman);
Monoo Mweretaka (Director); Rubee Eromanga (Director); Fatele Tetapo (Director).

AIR KIRIBATI LIMITED



**ANNUAL ACCOUNTS FOR THE YEAR
ENDED 31st of DECEMBER 2018**



FINANCIAL PERFORMANCE

AIR KIRIBATI LIMITED

Profit & Loss Statement

For the year ended 31 December 2018

	Notes	2018 AUD	2017 AUD
Revenue			
Domestic & regional	12	6,761,906	7,109,353
International	12	1,065,408	346,586
Government subsidy	5	-	612,998
		<u>7,827,314</u>	<u>8,068,937</u>
Direct Operating Costs			
Domestic & regional	13	4,913,701	3,983,877
International	13	<u>2,856,833</u>	<u>958,701</u>
		<u>7,770,534</u>	<u>4,942,578</u>
Gross Profit		<u>56,780</u>	<u>3,126,359</u>
Expenses	14	6,512,037	4,811,654
Operating Profit/(Loss)		<u>(6,455,257)</u>	<u>(1,685,295)</u>
Other Income	15	999	30,469
Other Expenses	16	561,676	271,032
Prior Year items	17	-	2,465,753
Net Profit/(Loss) before GoK contributions		<u>(7,015,935)</u>	<u>(4,391,611)</u>
Government contributions	18	4,788,295	430,574
Net Profit/(Loss) after GoK contributions		<u>(2,227,640)</u>	<u>(3,961,037)</u>

Signed by:

Chairman.....

Date:.....

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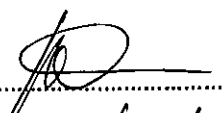
Director:.....

Date:.....

STATEMENT OF CHANGES IN EQUITY

AIR KIRIBATI LIMITED Statement of changes in equity For the year ended 31 December 2018

	Share capital	Shareholder contributions	Retained Earnings	Total AUD
Balance at the beginning of the year	500	12,769,057	(5,098,351)	7,671,206
Operating profit/(loss) for the year	-	-	(7,015,935)	(7,015,935)
Other comprehensive income	-	-	-	-
GoK contributions for CSO	-	-	4,788,295	4,788,295
	-	-	(2,227,640)	(2,227,640)
Balance at the end of the year	500	12,769,057	(7,325,991)	5,443,566

Signed by: 
Chairman.....
Date: 29/04/2021

Director:.....

Date:.....



FINANCIAL POSTION

AIR KIRIBATI LIMITED

Balance Sheet

As of December 2018

	Notes	2018 AUD	2017 AUD
Current Assets			
Cash on hand and at bank	3	1,046,420	1,355,030
Trade debtors	4	698,239	660,964
Other debtors & deposits		274,836	303,184
Receivable from GoK	5	612,998	612,998
Total Current Assets		2,632,493	2,932,176
Current Liabilities			
Trade creditors	6	2,456,989	1,289,082
Other creditors & accruals	6	205,717	534,351
Lease liability - current	7	1,035,316	495,840
Loans - current	9	646,854	646,854
Total Current Liabilities		4,344,876	2,966,127
Working Capital		(1,712,383)	(33,951)
Fixed Assets	8	13,522,748	13,839,326
Long Term Liabilities			
Leases	7	1,929,138	2,328,718
Loans	9	978,379	1,252,909
KOIL prior years	10	3,459,282	2,552,542
Total Long Term Liabilities		6,366,799	6,134,169
Net Assets		5,443,567	7,671,206
Equity			
Share capital		500	500
Shareholder contributions	11	12,769,057	12,769,057
Retained earnings		(5,098,351)	(1,137,314)
Current Year Earnings		(2,227,640)	(3,961,037)
Total Equity		5,443,567	7,671,206

Signed by:

Chairman.....

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Director:.....

Date: 29/04/2021

Date:.....


CASHFLOW STATEMENT

AIR KIRIBATI LIMITED

Statement of Cash Flows

For the year ended 31 December 2018

	2018 AUD	2017 AUD
Cash Flow from Operating Activities		
Receipts from Customers & CSO	12,607,680	7,729,339
Payments to Suppliers	(12,749,588)	(11,107,576)
Net Cash Flows from Operating Activities	(141,907)	(3,378,237)
Cash Flow from Investing Activities		
Acquisition of property plant & equipment	(938,809)	(7,188,010)
Net Cash Flows from Investing Activities	(938,809)	(7,188,010)
Cash Flow from Financing Activities		
Interest plus Principal payment for KPF Loan	(274,530)	(126,978)
Government payment for Dash 8 acquisition	-	5,700,000
KOIL prior years	906,740	2,552,542
Finance leases	139,896	2,824,558
Net Cash Flows from Financing Activities	772,105	10,950,122
Net Increase/Decrease for the period	(308,611)	383,875
Cash at the Beginning of the period	1,355,030	971,155
Cash at the End of the period	1,046,419	1,355,030

Signed by: 
Chairman.....

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Director:.....

Date: 29/04/2021

Date:.....

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2018

1. GENERAL

Air Kiribati Limited formerly known as Air Tungaru is a State Owned Enterprise established for the purpose of providing airline services for the general public. It commenced operations on 1st April, 1995. Air Kiribati's primary business is the transportation of passengers and cargo on scheduled airline services as well as on a charter basis.

1.1 Use of accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. Areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to financial statements are disclosed within the specific accounting policy or note.

2. PRINCIPLE ACCOUNTING POLICIES

The financial statements are prepared in accordance with the Generally Accepted Accounting Practice and the applicable financial reporting standards. The financial statements have been prepared on the historical cost basis. The following is a summary of important accounting policies used by the company.

2.1 Depreciation

Depreciation is calculated on a straight line method to write off the costs of the Long Term Assets over their expected useful lives. The rates are as follows.

Aircraft Airframe	3-7%
Spare Engine	20%
Aircraft spares	20%
Computers & computer software	20%
Ground handling equipment	10-20%
Air Condition	20%
Tools	25%
Furniture & Fixtures	33.3%
Motor Vehicles	20%
Building improvements	5%

Where parts of an item of aircraft, property, plant and equipment have different useful lives, they are accounted for as separate items (major aircraft components including engine assets) of aircraft, property, plant and equipment.

Signed by: 
Chairman.....

Date:..... 29/04/2021

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Director:.....

Date:.....



2.2 Currency

The financial statement is expressed in Australian dollars. Assets and liabilities expressed in foreign currencies are converted into Australian dollars at the rate of exchange ruling at the date of purchasing foreign currencies.

2.3 Stock of Spare Parts

Spare parts stocks comprise rotables and expendables and consumables. They are stated at the lower cost or net realizable value. Spare parts are capitalised and are depreciated.

2.4 Property, plant and equipment

Items of property plant and equipment are stated at cost or deemed costs less accumulated depreciation. Costs include expenditure that is directly attributable to the acquisition of the items and in bringing the asset to the location and working condition for its intended use.

2.5 Finance leased assets

Leases under which the Airline assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. Upon initial recognition, assets held under finance leases are measured at the amounts equal to their lower of fair value and the present value of the minimum lease payments at the inception of the lease.

3. CASH & CASH EQUIVALENT

Cash and cash equivalents include cash on hand, demand deposit, current accounts in bank and other short term highly liquid investments that are rapidly convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise:

	2018 AUD	2017 AUD
Cash balances	1,046,420	525,019
Other short-term deposits and short-term bills	-	830,011
Total cash and cash equivalents	1,046,420	1,355,030

4. TRADE DEBTORS & OTHER RECEIVABLES

Trade and other receivables are recognised at cost less any provision for impairment. Bad debts are written off when they are considered to have become uncollectable. Other deposits comprise deposits provided goods or service and are fully refundable.

Signed by: 
Chairman.....

Date: 29/04/2021

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Director:.....

Date:.....

Trade debtors comprises:

	2018	2017
	AUD	AUD
Trade debtors	848,239	810,964
Less: provision for doubtful debts	(150,000)	(150,000)
Balance at 31 December	698,239	660,964

5 RECEIVABLE FROM GOVERNMENT OF KIRIBATI

The Government of Kiribati provided an underwrite to cover for losses arising from the operation of an Airbus A320 aircraft between Tarawa and Honiara. The service was provided by Solomon Airlines on an ACMI basis as a step towards commencement of international services. The Government has subsequently approved to release the unpaid amounts. The services commenced on 30 August 2017 and the results to 31 December 2017.

6 TRADE CREDITORS

Trade creditors comprise amounts payable in respect to goods or services received by the Airline which remained unpaid as at balance date. These accounts are payable in the normal course of business at the terms of trade offered by the suppliers. Any amounts deferred and not considered payable within 12 months are classified as non-current. Balance remain at balance date are:

	2018	2017
	AUD	AUD
Trade creditors	2,456,989	1,289,082
Other creditors and accruals	205,717	534,351

7 FINANCE LEASE LIABILITIES

Finance leases relate to financing options taken by the airline in respect to:

1. Final payment due in respect to acquisition of Dash 8 aircraft. This amounted to US\$1,427,500.
2. Purchase of aircraft spare parts required for the Dash 8 aircraft

The above leases are for the period of 60 months.

3. Aircraft engine overhaul. Two engines were overhauled at a cost of USD285,000 each. These costs are paid over 12-month term. The cost of overhaul is capitalised in accordance with the accounting standards and the corresponding entry is recognised as lease liability.

Signed by:

Chairman.....

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Director:.....

Date:.....

29/04/2021

Date:.....

	2018 AUD	2017 AUD
Repayable as follows:		
Not later than 1 year	1,214,136	702,684
Later than 1 year and not later than 5 years	2,161,010	2,712,616
Later than 5 years	-	-
Less future finance costs	(410,691)	(590,742)
Present value of future rentals	2,964,454	2,824,558
Made up of principle amounts as follows:		
Not later than 1 year	1,035,316	495,840
Later than 1 year and not later than 5 years	1,929,138	2,328,718
Later than 5 years	-	-
	2,964,454	2,824,558
Finance leases comprised of:		
Dash 8	1,613,959	1,809,029
Aircraft spares	899,187	1,015,529
Aircraft engine overhaul	451,308	-
	2,964,454	2,824,558

Signed by: 
Chairman.....

Date: 29/04/2021

Director:.....

Date:.....



8. Fixed Assets and Depreciation Schedule

2017	Aircraft	Spares parts	Spare engines	Ground handling & other equipment	Computers & software	Airconditioning	Fixtures & fittings	Tools	Motor vehicles	Building improvements	Total
COST											
Balance 1/01/17	6,454,480	-	1,586,577	395,708	78,222	19,551	18,952	90,932	135,526	163,879	8,943,827
Additions	5,439,958	1,059,508	39,268	223,858	117,324	16,710	28,040	138,386	100,310	24,648	7,188,010
Balance 31/12/17	11,894,438	1,059,508	1,625,845	619,566	195,546	36,261	46,992	229,318	235,836	188,527	16,131,837
DEPRECIATION											
Balance 1/01/17	921,018	-	184,663	62,072	75,136	14,655	18,952	79,201	130,360	-	1,486,057
Additions	332,846	-	325,169	87,851	13,416	7,252	5,609	15,739	10,173	8,399	806,454
Balance 31/12/17	1,253,864	-	509,832	149,923	88,552	21,907	24,561	94,940	140,533	8,399	2,292,511
NBV 31/12/17	10,640,574	1,059,508	1,116,013	469,643	106,994	14,354	22,431	134,378	95,303	180,128	13,839,326

2018	Aircraft	Spares parts	Spare engines	Ground handling & other	Computers & software	Airconditioning	Fixtures & fittings	Tools	Motor vehicles	Building improvements	Total
COST											
Balance 1/01/18	11,894,438	1,059,508	1,625,845	619,566	195,546	36,261	46,992	229,318	235,836	188,527	16,131,837
Additions	814,286	-	-	17,335	15,291	8,771	6,245	70,881	6,000	-	938,809
Balance 31/12/18	12,708,724	1,059,508	1,625,845	636,901	210,837	45,032	53,237	300,199	241,836	188,527	17,070,646
DEPRECIATION											
Balance 1/01/18	1,253,864	-	509,832	149,923	88,552	21,907	24,561	94,940	140,533	8,399	2,292,511
Additions	604,844	105,951	325,169	113,152	26,523	7,892	6,265	36,263	20,929	8,399	1,255,387
Balance 31/12/18	1,858,708	105,951	835,001	263,075	115,075	29,799	30,826	131,203	161,462	16,798	3,547,898
NBV 31/12/18	10,850,016	953,557	790,844	373,826	95,762	15,233	22,411	168,996	80,374	171,729	13,522,748

Signed by:  9
Chairman:
Date: 29/04/2021
Director:
Date:



9. LOANS

Loans comprise:

1. borrowings from KFL in respect to acquisition of ground support equipment required to facilitate the freight of fish exports for other ground handling service requirements.
2. Borrowing from Kiribati Provident Fund for acquisition of aircraft.

Interest applicable is at a rate of 8.5%

	2018 AUD	2017 AUD
Loans		
Current	646,854	646,854
Non-current	978,379	1,252,909
Total	1,625,233	1,899,763

10. OWING TO KOIL

KOIL supplies aircraft fuel to the airline. In prior years this account was not properly maintained and reconciled by the airline as well as the supplier. As at 2016 the liability could not be substantiated, and no liability was recorded. Subsequently it was identified that the liability does exist and needs to be accounted for. However, reconciliations are still being carried out and final amounts owed is yet to be agreed upon as these liabilities relate to 2013 to 2016. The corresponding entry is made to Profit & loss account and is disclosed as prior period items. Due to the nature of the debt and the financial constraints of the Airline any payment of this debt is deferred and is recorded as non-current.

11. SHAREHOLDER CONTRIBUTIONS

The Airline is owned by the Government of the Republic of Kiribati. The Government has been proactively supporting the airline for both its operational finance as well as its developments. During 2018 the Government made contributions for losses in respect to Honiara services; losses resulting from lack of airstrip facilities for Dash 8 operations; certification cost of Dash 8; lease and related cost of acquiring a leased twin otter aircraft as a result of maintenance and other issues associated with Y12 major maintenance programme. Total amount received during 2018 was \$4,788,295 (2017 - \$430,574). These amounts have been taken up in the Profit and Loss

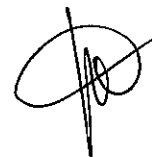
Signed by:  ...
Chairman.....

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Director:.....

Date: 29/04/2021

Date:.....



account. The amount received in 2017 related to funding for acquisition of the Dash 8 aircraft. This amount has been taken up in the shareholder contributions account in Balance Sheet.

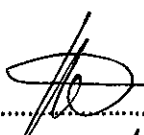
Shareholder contributions	2018 AUD	2017 AUD
Balance at beginning of the year	12,769,057	7,069,057
Contributions during the year	-	5,700,000
Closing balance	12,769,057	12,769,057

12. REVENUE

	2018 AUD	2017 AUD
Passenger revenue	5,920,248	5,296,903
Cargo revenue	852,233	841,783
Ground handling services	284,458	263,069
Charter income	609,269	770,869
Government subsidy - Honiara services	-	612,998
Fare subsidy - domestic services	-	134,438
Fees and other ancillary income	161,106	148,877
Total revenue	7,827,313	8,068,937

13. DIRECT OPERATING EXPENSES

	2018 AUD	2017 AUD
Fuel	2,465,504	2,467,428
Aircraft maintenance	1,293,104	995,188
Insurance	290,000	277,365
Aircraft & engine lease	762,420	58,121
Costs for Honiara services	2,856,833	958,701
Other items	102,673	185,776
Total direct operating costs	7,770,534	4,942,578

Signed by: 
Chairman.....

Date: 29/04/2021

Director:.....

Date:.....



14. OTHER OPERATIONAL EXPENSES & DEPRECIATION

	2018 AUD	2017 AUD
General and administrative expenses	1,638,259	1,334,746
Marketing and promotions	114,258	38,798
Employee expenses	2,357,350	1,771,706
Technical assistance	785,001	586,327
Occupancy costs	361,783	123,623
Doubtful debts provision	-	150,000
Depreciation	1,255,386	806,454
Total Other expenses	6,512,037	4,811,654

15. OTHER INCOME

	2018 AUD	2017 AUD
Interest income	-	7,974
Exchange difference	-	7,478
Sundry income	999	15,017
Total Other Income	999	30,469

16. OTHER EXPENSES

	2018 AUD	2017 AUD
Interest expense - loans	256,303	154,365
Exchange losses	296,114	-
Other items	9,260	116,667
Total Other Expenses	561,676	271,032

17. PRIOR YEAR ITEMS

	2018 AUD	2017 AUD
Liability to KOIL for prior years (refer note 8)	-	2,552,542
Over-depreciation of assets in prior years, other items	-	(86,789)
Total Prior Year Items	-	2,465,753

Signed by:

Chairman.....

Date:.....

12

Director:.....

Date:.....

18. CONTRIBUTIONS BY GOVERNMENT OF KIRIBATI

The Government of Kiribati has made the following contributions during the year:

	2018 AUD	2017 AUD
CSO for Honiara services for current and prior year	1,800,000	-
CSO for Domestic and Regional operations	2,210,000	-
CSO for losses on Line Island Group	778,295	-
Ground handling equipment fund	-	304,774
Expert aviation team fund	-	125,800
Total Government contributions for the year	4,788,295	430,574

19. EVENTS SUBSEQUENT TO BALANCE DATE

The Government of the Republic of Kiribati approved the Airline to pursue with acquisition of Jet Aircraft and establish its own international operations. The Government has committed to provide the necessary financial support.

20. CONTINGENT LIABILITIES

The Airline entered into a loan agreement with the Kiribati Provident Fund to borrow \$4,640,000 to acquire a Twin Otter aircraft in 2013. However, this aircraft was never received. The Government of Kiribati pursued legal action against the supplier, however no recourse was provided. There is no chance of recovering the aircraft or the monies paid.

The Airline is pursuing the matter with the management and Board of the lender which is also owned by the Government. On the basis of the deliberations the amount was written off previously. However, any resolutions are not formalised or endorsed by the Government and the lender.

Signed by:  . . .
Chairman.....

Date: 29/04/2021

13

Director:.....

Date:.....

