REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

For the Parliament and the People of Kiribati

Air Kiribati Limited For the Year Ended 31 December 2010

KIRIBATI NATIONAL AUDIT OFFICE

August 2012

KNAO
For the Parliament and the People of Kiribati
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KIRIBATI NATIONAL AUDIT OFFICE

Promoting Transparency and accountability for the Parliament and the People of Kiribati

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Audit Report

To the readers of Air Kiribati Limited's financial statement For the year ended 31 December 2010

The Auditor-General, Mrs Matereta B Raiman, is the auditor of Air Kiribati Limited (AKL).

The audit covered the company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1981 and Company Act 1979 that apply to the financial statements of the AKL for the year ended 31 December 2010.

Qualification

1. My audit scope was limited as document requested for the audit were not all furnished as detailed below:
   - We were unable to verify the accuracy and completeness of revenue due to no physical stocktake performed for air tickets.
   - Unable to determine correct value of assets and depreciation due to no fixed assets register maintained.
   - Insufficient IBD confirmation slip to allow us to determine an accurate amount of IBD and interest earned.
2. Depreciation charged for the year was understated as the value reflected in the accounts based on the newly acquired assets only.
3. Revealed a significant variance of $51,501, between the trade creditors balance disclosed in the financial statement and the age listing. The statement was understated by such amount.

Qualified Opinion

In my opinion, except for the effects on the financial statements of matters referred to in the qualification paragraph, the financial statements of the AKL for the year ended 31 December 2010:

- Comply with generally accepted accounting practice as they apply in Kiribati;
- Fairly reflect the results of its operations and cash flows for year ended 31 December 2010;
- Fairly reflect the company's financial position for year ended 31 December 2010.

The audit was completed on 25 April 2012, and was the date at which our opinion was expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the International Organisation of Supreme Audit Institutions' (INTOSAI) Auditing Standards, which incorporate the International Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;

- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice. The financial statements must give a true and fair view of the financial position of the company for the year ended 31 December 2010 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Public Finance (Control and Audit) Act 1981 and Company Act 1979.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from the Public Finance (Control and Audit) Act 1981.

Independence

When carrying out the audit we followed the independence requirements of the Kiribati National Audit Office, which incorporates the independence requirements of the International Standards of Auditing.

Other than the audit, we have no relationship with or interests in the Company.

Matereta B Raiman
Auditor General
Kiribati National Audit Office

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AIR KIRIBATI LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010
(UNAUDITED ACCOUNTS)

1. GENERAL

Air Kiribati Limited was established for the purpose of providing airline services for the general public. It commenced on 1st April, 1995

2. PRINCIPLE ACCOUNTING POLICIES

The financial statements are prepared in accordance with the historical cost convention. The following is a summary of important accounting policies used by the company.

(a) 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:

Aicraft airframe/engine	*3%*
Computer	*20%*
AM Radio	*20%*
Air Condition	*20%*
Tools	*33.3%*
Furniture/Fixtures	*33.3%*
Motor Vehicles	*20%*

(b) 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.

(c) Stock

Stock are stated at the lower cost or net realizable value

(3) CASH	2010	2009
Bank -239877	$194,655	$207,307
Payroll cheque	-$64,017	-$59,857
Payroll salary advance	$0	$1,692
IBD - 711059	$27,457	$0
Merchant account – 766734	$0	$4,334
IBD – 789729	$330,291	$190,357
One World Guarantee	$10,000	$0
Undeposited funds	$8,976	$30,171
	$507,363	**$374,004**

4. STAFF DEBTORS & OTHER RECEIVABLES

Staff/Recharge Account	-$2,041.77	$7335
Shorts/Surplus	$735	$3,633
Air Pacific – Loss baggage Claim	$100	$100
Imprest account	$13,701	$6,811
Prepaid Insurance	$39,368	$0
	$51,862	**$17,879**

5. OTHER PAYABLES

Cash Remittance	-$1,046	-$499
Government Charter	$144,509	$116,827
Prepaid tickets	$0	-$6,702
Our Airline International tickets	$12,845	$31,681
One World Flight centre	$0	$0
Visa	$6	$6
Other International agencies	$15,910	$0
	$172,224	**$141,314**

6. Tax Payables

It shows that we have an amounts for the outstanding tax reflected in the account. According to the instruction, Government agreed to clear this outstanding with no cash payment being arranged. Therefore, we unable at this time to adjust this amount in our book when there are no proven of cash transactions made.

7.

LONG TERM
ASSETS

Cost	Aircraft	Computer	AM Radio	Air Condition	Tools	Furniture& Fixtures	Motor Vehicles	Total
Balance 1/01/10	2,848,608	29,711	42,000	1,200	5,000	2,270	9,494	2,938,
Addition	505,868	16,418	0	2,630	16,266	1,831	10,241	553,
Balance 31/12/10	**3,354,476**	**46,130**	**42,000**	**3,830**	**21,266**	**4,101**	**19,735**	**3,491,**
Depreciation								
Balance 1/01/10	303,750	9,000	31,500	1,196	4,950	1,994.00	11,250	363,
Charge	15,176	3,284	0	876	5,417	609.72	2,048	27,
Balance 31/12/10	**318,926**	**12,284**	**31,500**	**2,072**	**10,367**	**2,543.72**	**13,298**	**390,**
NBV 31/12/10	**3,035,550**	**33,846**	**10,500**	**1,758**	**10,900**	**1,557**	**6,437**	**3,100,**
NBV 1/01/10	**2,544,858**	**20,712**	**10,500**	**4**	**50**	**336**	**-1,756**	**2,574,**

8. SHARE CAPITAL		
Authorised Capital	500	500
Ordinary Capital	-	-
Balance	**500**	**500**
9. RETAINED PROFIT		
Balance 1/01/10	167,855	-
Net Profit/(Loss)	846,857	168,275
Balance 31/12/10	**1,014,713**	**168,275**

END OF NOTES

The attached notes form part of these financial statements

CHAIRMAN

Date: 27/06/11

DIRECTOR

AIR KIRIBATI LTD

UNAUDITED PROFIT AND LOSS STATEMENT

F THE YEAR ENDED 31 DECEMBER; 2010

Revenue			2009
		2010	(Apr-Dec)
Air Ticket - Bairiki		1,449,584	658,286
Air Ticket - Bonriki		166,185	89,519
Air Ticket - Our Airline		1,387	-
Honolulu Xmas		26,003	-
Air Ticket - O/I Agents		865,144	440,679
Ticket Commissions/Booking		4,671	4,000
Bonriki Freight		130,378	96,370
O/I Agents - Freight		62,960	37,049
Bonriki Excess Freight		63,259	47,187
O/I Excess Freight		14,502	11,417
Mail		22,475	-
Ground handling- Bonriki		125,904	51,157
Ground handling - Kiritimati		32,250	12,875
Domestic Charter		120,934	142,500
Agency ISC Commission		-	133
Late fees collected		826	296
Sundry -PTA/Remit fees		9,425	63,818
Tickets Cancellation fee		2,658	1,130
		3,098,545	**1,656,414**
Cost of sales			
Fuel Oil - Aircraft		962,681	554,698
Porters O/I wages		28,455	14,496
Aircraft In house repairs		79,913	30,630
Flight crew Insurance		-	3,190
Aircraft Insurance		136,052	-
total Cost of sales		**1,207,100**	**603,014**
Gross Profit		**1,891,445**	**1,053,400**
Expenses			
Accounting & audit fees		-	93
Technical Assistance		2,500	655
Legal fees		-	1,750
Landing fees		12,583	-
Cleaning		425	315
Bank charges		16,444	12,734
Local travelling		56,748	40,275
Local training/workshop		10,196	3,947
Depreciation		27,410	71,122
Postage		322	29
Telephone/internet/fax		43,081	19,389

Office supplies		39,897	18,291
Overseas Travelling		38,407	50,051
C[illegible]seas Training/Workshop		16,157	9,500
Freight Paid		5,663	3,049
Late fees Paid		0	0
Repair/Maint- Furn/Off Equip		7,584	13,384
Repairs/Maint- Plant&MV		13,592	8,849
Fuel Motor Vehicles/Plants		21,240	16,928
Board Directors		10,384	7,731
Suspense account		1,165	4,936
Agents Commission		66,315	30,762
Prior Years		-	-
Advertising/Promotion		6,917	7,213
Entertainment		10,529	5,739
Publications		72	2,261
Uniform		3,640	12
Employer Contribution KPF		42,134	13,094
Allowance		96,408	65,877
Salaries/Wages		479,108	308,294
Shift Allowance		1,480	55
Overtime		68,557	58,872
Redundancy		-	16,099
Leave grants		15,626	10,864
Medical Checkup		4,793	1,317
Staff House rents		25,520	3,283
Electricity/Water		56,633	51,188
Permits/Licences		7,514	5,013
Rent of Premise		11,145	32,233
Repair and Maintenance		16,190	598
total operating expenses		**1,236,380**	**895,800**
other income			
Interest Income - IBD		1,591	-
Weekend- End Packages		-	608
Coral Sun - Maintance Income		17,629	18,008
Our Airline Commission/fees		60,718	14,754
Excess Freight Kiritimati		4,553	-
Prior Years		84,570	-
Sundry Income		22,733	-
total other income		**191,793**	**33,370**
Net Profit		**846,857**	**190,970**

AIR KIRIBATI LTD
UNAUDITED BALANCE SHEET
A T 31 DECEMBER, 2010

					2009
Current Assets	Notes		2010		(Apr - Dec)
Cash & Cash Equivalent	3	$	507,363	$	374,004
Trade debtors		$	565,923	$	447,985
Staff debtors & other receivables	4	$	51,862	$	17,879
		$	**1,125,148**	**$**	**839,868**
Current Liabilities					
Other payables	5	$	172,224	$	141,314
Trade creditors		$	235,228	$	68,580
Tax payables	6	$	253,911	$	492,633
		$	**661,363**	**$**	**702,527**
Working Capital		**$**	**463,785**	**$**	**137,341**
Non Current assets					
Total Non Current assets	7	**$**	**3,100,548**	**$**	**2,574,703**
Long term Liabilities					
Aircraft Insurance		$	29,553	$	23,702
Net Assets		**$**	**3,534,780**	**$**	**2,688,342**
Equity					
Government share/capital	8	$	500	$	500
Government Grant/subsidy		$	2,519,567	$	2,519,567
Retained earnings	9	$	1,014,713	$	168,275
Total Equity		**$**	**3,534,780**	**$**	**2,688,342**

The attached notes form part of these financial statements

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CHAIRMAN-

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DIRECTOR

AIR KIRIBATI LTD			
UNAUDITED CASH FLOW STATEMENT			
YE[illegible] NDED 31ST DECEMBER, 2010			
	(Note)	2010	
CashFlow from Operating Activities			
Cash received from Customers		$ 2,946,624	
Cash paid to Suppliers		$ (2,503,609)	
Interest received		$ 1,591	
Maintenance Income- Coral Sun		$ 17,629	
Commission - Our Airline		$ 60,718	
Excess freight - Xmas		$ 4,553	
Prior Years		$ 84,570	
Sundry Income		$ 22,733	
	(B)	**$ 634,808**	
Cash Flow from Investing Activities			
Purchases of Fixed assets		$ (553,254)	
Aicraft Insurance		$ 51,805	
		$ (501,449)	
Cashflow from Financing Activities		$ -	
Openning Cash and Cash Equivalents		**$ 374,004**	
Net Cash Flow		**$ 133,359**	
Closing Cash and Cash Equivalents	*(A)*	**$ 507,363**	
***(A)* - Details of Cash and Cash Equivalents**			
Bank 239877		$ 194,655	$ 207,307
Payroll Cheque		$ (64,017)	$ (59,857)
Payroll Salary Advance		$ -	$ 1,692
IBD 711059		$ 27,457	$ -
Merchant account 766734		$ -	$ 4,334
IBD 789729		$ 330,291	$ 190,357
One World Guarantee		$ 10,000	$ -
Undeposited Funds		$ 8,976	$ 30,171
		$ 507,363	**$ 374,004**
(B) -Reconciliation of Cash flow from Operations			
Net Profit/(Loss)		$ 846,857	
Depreciation for the year		$ 27,407	
Creditors Adjustment - Aircraft Insurance		$ (46,371)	
Decrease/(increase in Debtors)		$ (117,938)	
Decrease/(increase in other debtors and prepayments)		$ (33,983)	
No change in stocks		$ -	
Increase/(Decrease in creditors)		$ 166,648	
Increase/(Decrease in other payables)		$ (207,812)	
		$ 634,808	