REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Promoting Transparency and Accountability

KNAO

For the Parliament and the People of Kiribati

Air Kiribati Limited for the year ended 31st December, 2011.

Kiribati National Audit Office

May, 2013

KNAO
For the Parliament and the People of Kiribati
P.O.Box 63
Bairiki Tarawa
Republic of Kiribati
Telephone: (686) 21335
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KIRIBATI NATIONAL AUDIT OFFICE

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

TE MAURI TE RAOI AO TE TABOMOA

Audit Report

To the readers of Air Kiribati Limited's financial statement For the year ended 31 December 2011

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 2011.

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 as there was no physical stocktake performed for air tickets. This was also mentioned in my previous report.
    - Unable to determine correct value of assets and depreciation since fixed asset register (FAR) submitted for audit did not include the asset's acquisition date and initial cost.
    - Unable to review and ascertain the validity of the board decision due to the unavailability of some board minutes and those provided were not signed.
2. No provision or write off provided for long outstanding accounts which could lead to overstatement of the company's net worth and net profit.
3. Revealed a significant variance of $125,160 between the trade debtors balance disclosed in the financial statement and the age listing. The statement was overstated by such amount.
4. A significant debit balance of $213,492 (74%) was absorbed in Trade creditors' balance of $286,723, thus indicated poor reconciliation of the accounts.

Qualified Opinion

In my opinion, **except for the effects of the matters** referred to in the qualification paragraph, the financial statements of the AKL for the year ended 31 December 2011:

- Comply with generally accepted accounting practice as they apply in Kiribati;
- fairly reflect the company's financial position for year ended 31 December 2011,
- fairly reflect the results of its operations and cash flows for year then ended.

The audit was completed on 1 May, 2013, 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 generally accepted auditing practice in Kiribati.

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 randomly select transactions when conducting our audit, therefore we could not 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 AKL 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 2011 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.

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Date: 1/05/13

Mrs. Matereta. Raiman.
Auditor General
Kiribati National Audit Office

AIR KIRIBATI LIMITED

(Company No. 80 – Registered in Kiribati)
Board of Directors: Atanteora Beiatau (Chairman), Kabetite Mwetaka, Enari Arioka, Benjamin Tokataake, Teabi Tekeaa.
Company Secretary and Chief Executive Officer: Capt Iosabata Namakin

Phone: (686) 28532; 28533; 28557
Fax: (686) 28216; 29716
Email: airkiribati.eng@tskl.net.ki

P.O. Box 274
Bonriki, Tarawa
Republic of Kiribati

Ref:

25th June 2012

Auditor General
AG's office
Bairiki

Dear Sir,

<u>SUBJECT: AIR KIRIBATI FINANCIAL STATEMENT FOR THE YEAR ENDING 31 DECEMBER, 2011</u>

I am pleased to submit above account for Air Kiribati Ltd for the year 2011 which is covering periods of twelve months from 1st January up to 31st December 2011.

In view of this, our office wishes to invite your good office to carry out auditing with a view that we are ready to work with your staffs and to provide whatever they require from our end once they arrive.

Should you require further information in relation to this submission, please do not hesitate to enquire our office or the undersigned person.

Yours Sincerely,

Tokobea Naunta
For Chief Executive Officer

AIR KIRIBATI LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(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:

Aircraft Airframe & Engine	3%
Computer	20%
A[illegible]ado	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 & CASH EQUIVALENT	**2011**	**2010**	**2009**
Undeposited funds	$ 29,604	$ 8,976	$ 30,171
Bank - 239877	$ 13,982	$ 194,655	$ 207,307
IBD - 711059	$ 27,457	$ 27,457	$ -
IBD - 789729	$ 802,056	$ 330,291	$ 190,357
Merchant	$ -	$ -	$ 4,334
Bank - One World Guarantee	$ 10,000	$ 10,000	$ -
Cash and Bank	$ 883,099	$ 571,379	$ -
Payroll Cheque	$ (64,200)	$ (64,017)	-$ 59,857
Payroll salary advance	$ (2,201)	$ -	$ 1,692
Electronic Clearing Account	$ (84,828)	$ -	$ -
Others	$ (151,230)	$ (64,017)	$ -
Total	**$ 731,869**	**$ 507,362**	**$ 374,004**

4. STAFF DEBTORS & OTHER RECEIVABLES	**2011**	**2010**	**2009**
Staff Recharge Account	$ (892)	$ (2,042)	$ 7,335
Short & Surplus	$ 871	$ 735	$ 3,633
Air Pacific - Lost Baggage Claim	$ 100	$ 100	$ 100
Imprest Account	$ 16,123	$ 13,701	$ 6,811
Prepaid Insurance	$ 39,368	$ 39,368	$ -
	$ 55,570	**$ 51,862**	**$ 17,879**

5. OTHER PAYABLES

	2011	2010	2009
Cash Remittance	$ (1,083)	$ (1,046)	$ (499)
Government Charter	$ 146,148	$ 144,509	$ 116,827
Prepaid Tickets	$ (9,345)	$ -	$ (6,702)
Our Airline International Tickets	$ (83,110)	$ 12,845	$ 31,681
One World Flight Center	$ (119,954)	$ -	$ -
Visa	$ 85	$ 6	$ 6
Other International Agencies	$ 17,395	$ 15,910	$ -
Payroll Liabilities	$ 48,508	$ -	$ -
	$ (1,357)	**$ 172,224**	**$ 141,314**

6. TAX PAYABLE

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

7. LONG TERM ASSETS			AM	Air		Furniture	Motor	
COST	Aircraft	Computer	Radio	Condition	Tools	& Fixtures	Vehicles	Total
Balance 1/01/11	$ 3,354,476	$ 46,130	$ 42,000	$ 3,830	$ 21,266	$ 4,101	$ 19,735	$ 3,491,538
Addition	$ 504,922	$ 7,043	$ 350	$ -	$ 1,698	$ -	$ 20,000	$ 534,013
Balance 31/12/11	**$ 3,859,398**	**$ 53,173**	**$ 42,350**	**$ 3,830**	**$ 22,964**	**$ 4,101**	**$ 39,735**	**$ 4,025,551**
DEPRECIATION								
Balance 1/01/11	$ 318,926	$ 12,284	$ 31,500	$ 2,072	$ 10,367	$ 2,544	$ 13,298	$ 390,990
Charge	$ 115,782	$ 10,635	$ 8,470	$ 766	$ 7,647	$ 1,366	$ 17,372	$ 162,037
Balance 31/12/11	**$ 434,708**	**$ 22,918**	**$ 39,970**	**$ 2,838**	**$ 18,014**	**$ 3,909**	**$ 30,670**	**$ 553,027**
NBV 31/12/11	**$ 3,424,690**	**$ 30,255**	**$ 2,380**	**$ 992**	**$ 4,951**	**$ 191**	**$ 9,065**	**$ 3,472,524**
NBV 1/01/11	**$ 3,035,550**	**$ 33,846**	**$ 10,500**	**$ 1,758**	**$ 10,899**	**$ 1,557**	**$ 6,437**	**$ 3,100,548**

8. SHARE CAPITAL

	2011	2010	2009
Authorised Capital	$ 500	$ 500	$ 500
Ordinary Capital	$ -	$ -	-
Balance	**$ 500**	**$ 500**	**$ 500**

9. RETAINED EARNINGS

	2011	2010	2009
Balance 1/1/11 (Per MYOB)	$ 1,012,270	$ 167,855	
Add : Current Net Profit	$ 824,677	$ 846,858	$ 168,275
Est. Values of 2 Saloon cars acquired prior 2011	$ 20,000	$ -	
Balance 31/12/11	**$ 1,856,947**	**$1,014,713**	**$ 168,275**

END OF NOTES

The attached Notes form part of these Financial Statements

CHAIRMAN

Date :

DIRECTOR

Date :

[illegible] STATEMENT

[illegible] THE YEAR ENDED 31 DECEMBER 2011

(UNAUDITED ACCOUNTS)

			2009
REVENUE	**2011**	**2010**	**(Apr - Dec)**
Air Tickets	$ 2,581,345.00	$ 2,508,303.00	$ 1,188,484.00
Freight	$ 407,448.00	$ 271,099.00	$ 192,023.00
Mail	$ 17,298.00	$ 22,475.00	$ -
Ground Handling	$ 157,901.00	$ 158,154.00	$ 64,032.00
Charter - Domestic	$ 263,917.00	$ 120,934.00	$ 142,500.00
Sundry Fees & Commission	$ 29,612.00	$ 17,580.00	$ 69,377.00
	$ 3,457,521.00	**$ 3,098,545.00**	**$ 1,656,416.00**
COST OF SALES			
Aircraft Related Expenses	$ 1,330,104.00	$ 1,207,101.00	$ 603,014.00
TOTAL COST OF SALES	**$ 1,330,104.00**	**$ 1,207,101.00**	**$ 603,014.00**
GROSS PROFIT	**$ 2,127,417.00**	**$ 1,891,444.00**	**$ 1,053,402.00**
EXPENSES			
Accounting & Audit Fees	$ -	$ -	$ 93.00
Technical Assistance	$ 2,663.00	$ 2,500.00	$ 655.00
Bank Charges	$ 11,711.00	$ 16,444.00	$ 12,734.00
Travelling	$ 99,360.00	$ 95,155.00	$ 90,326.00
Training & Workshop	$ 37,226.00	$ 26,353.00	$ 13,447.00
Depreciation	$ 162,037.00	$ 27,410.00	$ 71,122.00
Telephone , Internet & Postage	$ 41,530.00	$ 43,403.00	$ 19,418.00
Office Supplies	$ 46,682.00	$ 40,322.00	$ 18,606.00
Freight Paid	$ -	$ 5,663.00	$ 3,049.00
Repairs & Maintenance	$ 12,018.00	$ 23,774.00	$ 13,982.00
Motor Vehicle Expenses	$ 26,575.00	$ 34,832.00	$ 25,777.00
Board Directors	$ 16,804.00	$ 10,384.00	$ 7,731.00
Suspense Account	$ -	$ 1,165.00	$ 4,936.00
Compensation & Damage	$ 773.00	$ -	$ -
Commission - Agents	$ 73,569.00	$ 66,315.00	$ 30,762.00
Prior Years Expense	$ 9,850.00	$ -	$ -
Advertising & Promotion	$ 17,493.00	$ 6,917.00	$ 7,213.00
Entertainment	$ 8,741.00	$ 10,529.00	$ 5,739.00
Publications, Fees & Licenses	$ 18,582.00	$ 20,169.00	$ 9,024.00
KPF - Employers Contribution	$ 64,653.00	$ 42,134.00	$ 13,094.00
Staff Salaries & Other Related Expenses	$ 674,233.00	$ 669,612.00	$ 445,291.00
Redundancy	$ -	$ -	$ 16,099.00
House Rent	$ 28,247.00	$ 36,665.00	$ 35,516.00
Electricity & Water	$ 45,786.00	$ 56,633.00	$ 51,188.00
Total Operating Expenses	**$ 1,398,533.00**	**$ 1,236,379.00**	**$ 895,802.00**
OTHER INCOME			
Commission & Fees	$ 54,257.00	$ 60,718.00	$ 14,754.00
Freight - Other Airline	$ 19,125.00	$ 4,553.00	$ -
Sundry Income	$ 22,410.00	$ 126,523.00	$ 18,616.00
Total other Income	**$ 95,792.00**	**$ 191,794.00**	**$ 33,370.00**
NET PROFIT	**$ 824,677.00**	**$ 846,859.00**	**$ 190,970.00**

.... CHAIRMAN
Date :

.... DIRECTOR
Date :

AIR KIRIBATI LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2011

(UNAUDITED ACCOUNTS)

CURRENT ASSETS	NOTES	2011	2010	2009
Cash & Cash Equivalent	3	$ 731,869	$ 507,363	$ 374,004
Trade Debtors		$ 726,426	$ 565,923	$ 447,985
Staff Debtors & Other Receivables	4	$ 55,570	$ 51,862	$ 17,879
		$ 1,513,866	**$ 1,125,148**	**$ 839,868**
CURRENT LIABILITIES				
Other Payable	5	$ (1,357)	$ 172,224	$ 141,314
Trade Creditors		$ 334,173	$ 235,228	$ 68,580
Tax Payable	6	$ 247,006	$ 253,911	$ 492,633
		$ 579,822	**$ 661,363**	**$ 702,527**
WORKING CAPITAL		**$ 934,044**	**$ 463,785**	**$ 137,341**
NON CURRENT ASSETS				
Total Non Current Assets	7	**$ 3,472,524**	**$ 3,100,548**	**$ 2,574,703**
LONG TERM LIABILITIES				
Aircraft Insurance		$ 29,553	$ 29,553	$ 23,702
NET ASSETS		**$ 4,377,015**	**$ 3,534,780**	**$ 2,688,342**
EQUITY				
Government Share & Capital	8	$ 500	$ 500	$ 500
Government Grant & Subsidy		$ 2,519,567	$ 2,519,567	$ 2,519,567
Retained Earnings	9	$ 1,856,947	$ 1,014,713	$ 168,275
TOTAL EQUITY		**$ 4,377,015**	**$ 3,534,780**	**$ 2,688,342**

The attached Notes form part of these Financial Statements

CHAIRMAN

Date :

DIRECTOR

Date :

AIR KIRIBATI LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
(UNAUDITED ACCOUNTS)

CASH FLOW FROM OPERATING ACTIVITIES	2011	2010
Cash Receipts from Customers	$ 2,047,362	$ 3,138,418
Cash Paid to Suppliers & Employees	$ (1,306,400)	$ (2,503,610)
Net Cash from Operating Activities	**$ 740,962**	**$ 634,808**
CASH FLOW FROM INVESTMENT AND ACTIVITIES		
Acquisition of Long Term Assets	$ (534,013)	$ (553,254)
Add : Prior Years Adjustment	$ 20,000	$ 51,805
Deduct : Differrence in R/E balance 2010/2011 (Audited Acct/MYOB)	$ (2,443)	$ -
	$ 224,506	**$ 133,359**
CASH FLOW FROM FINANCING ACTIVITIES		
Grant & Subsidy	$ -	$ -
Net Increase in Cash & Cash Equivalent	$ 224,506	$ 133,359
Cash & Cash Equivalent 1/1/2011	$ 507,363	$ 374,004
Cash & Cash Equivalent 31/12/2011	**$ 731,869**	**$ 507,363**
Note 1. Reconciliation of Cash & Cash Equivalent		
Cash & Bank	$ 883,099	$ 571,380
Others	$ (151,230)	$ (64,017)
Cash & Cash Equivalent at 31/12/2011	**$ 731,869**	**$ 507,363**
Note 2. Reconciliation of Net Profit to Net Cash from Operating Activities		
Net Profit as per Account	$ 824,677	$ 846,857
Add: Depreciation	$ 162,037	$ 27,407
	$ 986,714	**$ 874,264**
Increase in Debtors	$ (164,211)	$ (151,921)
Decrease in Creditors	$ (81,541)	$ (41,164)
Creditors Adjusments - Aircraft Insurance	$ -	$ (46,371)
Net Profit from Operating Activities	**$ 740,962**	**$ 634,808**

CHAIRMAN
Date :

DIRECTOR
Date :