REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

BEITO SHIPYARD COMPANY LIMITED

FOR THE YEARS ENDED 31st AUGUST 2007 and 2008

Kiribati National Audit Office

December, 2009

THE REPORT AUDITOR GENERAL OF THE BETIO SHIPYARD COMPANY LIMITED FOR THE YEARS ENDED 31/08/07and 31/08/08

Executive Summary

Background

My Office were unable to undertake an audit at the Betio Shipyard Company Limited for the years ended 1998 to 2005 due to the absence of accounting books and records as a result of a fire at their premises.

Accounts for 2006 were submitted by BSCL but were returned for correction and were eventually not resubmitted to my Office for audit.

Whilst accounts have been submitted for the years 2007 and 2008, these are heavily qualified due to the inability to confirm opening account balances and the absence of other key accounting records.

BSCL need to make adjustments to the 2007 and 2008 accounts and this will occur in 2009.

Findings:

- BSCL incurred a net loss for 2008 of $351,254.90 and reported a net profit of $422,909.19 for 2007
- 2006 accounts were not resubmitted and in turn we could not confirm balances.
- The company was unable to prepare cash flow statements for years 2007 and 2008.
- The Bank reconciliation was not done for years 2007 & 2008.
- No fixed assets register for both years 2007 and 2008.
- The PPI for years 2007 and 2008 were hypothetical as figures were based on assumption.
- Poor control over salaries.

Recommendations:

- (Para 3.1) 2006 adjusted accounts need to be resubmitted.
- (Para 3.2) The company is required to prepare its cash flow statements.
- (Para 3.3) The company has to undertake bank reconciliation on a regular basis.
- (Para 3.4) Maintain an asset register and ensure that this is complete and up-to date.
- (Para 3.5) Details of the PPI should be determined and adjusted in the accounts rather than incorporating hypothetical figures in the financial statement.
- (Para 3.6) The company is urged to take proper control over payment of salaries.

THE REPORT AUDITOR GENERAL OF THE BETIO SHIPYARD COMPANY LIMITED FOR THE YEARS ENDED 31/08/07and 31/08/08

INTRODUCTION

As required by Part VII of the Public Finance (Control and Audit) Ordinance 1976, I have a completed audit of Betio Shipyard Company Limited (BSCL) for years ended 31 August 2007 and 2008. The audit was carried out in accordance with relevant statutory provisions and normally accepted accounting standards.

1. General

BSCL was incorporated on 5 February 1988. It took over the operations of the Betio Shipyard, a self accounting division of the Ministry of Transport and Communication as of that date.

2. Finance

Performance

A comparison of the performance of the company for the two years is provided in the table shown below:

Due to the non re-submission of 2006 financial account for audit, it was stated as an outstanding audited account and therefore we did a comparison on the performance of the company based on the financial account for 2007 and 2008 submitted and audited.

			Variances
	2008	2007	2008/2007
Income	$	$	%
Income from products/services	2,138,604.04	3,712,194	-42.38
Net Income	2,122,501.59	3,685,590	-42.41
COGS	1,511,245.52	2,643,936	-42.84
Gross profit	611,256.07	1,041,654	-41.31
other income	705,004.93	1,084,017	-34.96
Less Expenditure			
Depreciation	46,460.88	69,120.00	-32.78
Bad and Doubtful debts	0.00	0	
Other Expenses	891,052.34	930,277	-4.22
Total Expenses	**937,513.22**	**999,396.52**	-6.19
Operating Profit	**378,747.78**	**1,126,274.34**	-66.37
Gain on Disposal	0	0	
Dividend declared	0	0	
PPI	730,002.68	703,365.15	3.78
Company tax	0	0	
Net Profit/(Loss)after tax	**(351,254.90)**	**422,909.19**	-183

It was noted that the net income for the year 2008 was down by 42.38% when compared with the net income in 2007. Such a decrease has resulted in a net loss of 183% as compared to the net profit in 2007. It is therefore imperative for the company to try to increase its products and services to earn more income or to maintain its profitability.

3. Audit findings

3.1 2006 accounts not yet audited

The audit could not state whether the 2007 and 2008 balances disclosed in the financial accounts were correct and true due to the non re-submission of the 2006 accounts to be audited.

There were adjustments which required the company to do so and would affect to the changes in the 2007 and 2008 accounts. Therefore, the audit could not state or confirm whether the 2007 and 2008 accounts have been amended/ changed or not.

3.2 Cash flow statement for 2007 & 2008

The cash flow statement has not been prepared for the year 2007 and 2008. In this respect the company's financial information is incomplete and we are un-able to check and measure its cash flow status.

commendation: BSCL is required to do its cash flow statement which forms part of the financial information.

3.3 No Bank reconciliation

The Bank reconciliation for years 2007 and 2008 has not been done on a monthly basis which is important in-order to:

- detect outstanding deposits and un-presented cheques at end of financial year.
- ensure that the balance at end of year was correct.

Recommendation: BSL has to undertake reconciliations on a periodic basis.

Management response
The Finance manager will try to do their bank reconciliation up to 31/08/09.

3.4 Fixed Assets

There is no fixed asset register during 2007 and 2008 whilst there are fixed assets purchased during the year not included in the account as additions instead the company charged to maintenance account as expenses. Given this, the audit did not agreed with the fixed asset amount disclosed in the account.

The cost of the old buildings being destroyed by fire incidents should be disposed/ cleared off despite the fact that it was no longer situated and to be replaced with the new/ fresh cost of the new buildings.

Recommendation
BSCL should:

- Open a Fixed Asset Register and conduct a counting on all the company's fixed assets and update records on them.

- Ensure that the Fixed Asset Register is properly detailed by stating the PV No., Date of Purchase, Cost and Supplier's Name.

- Ensure that additional purchase of fixed assets were included under Additions in the fixed asset schedule or proper adjustment should be done to account for additional purchases of fixed asset wrongly charged to Maintenance account. As well as to put in their books the new/ fresh cost of the new buildings to replaced the burned buildings.

Management response: The company will act on this by recording all fixed assets in the fixed assets register and make adjustment on fixed assets charged to maintenance account.

The company was still waiting for the comments from the audit of the cost of the burned buildings to be cleared off from their books and replaced with the new/ fresh cost.

3.5 PPI 2007 & 2008

There were no details or records produced during the audit on PPI for 2007 of -$703,365.15 and -$730,002.68 in 2008. As well the PPI was wrongly presented in the balance sheet statement when it should be appropriately presented in the profit and loss statement.

Recommendation: To make sure that the PPI should be properly supported with details or records as well as it should be corrected accordingly in the profit and loss statement.

Management Response: The Finance Manager explained that there were no records could be provided on PPI due to fire incidents destroyed all the documents and therefore she made as estimation on the values.

3.6 Salaries

It was noted that the control over the salary was poor because of the following reasons,

- Some of the time cards were gone missing.
- Some of the Admin staff collected their salary one day before the payday and did not sign in the salary signatory list.

Recommendation: BSCL is urged to take proper control over the salaries by keeping staff time cards safely, also to ensure that proper recipients signed their salaries and to ensure that cash salaries are collected on paydays only.

Management Response: The Finance Manager will ensure and maintain that cash salaries is collected on paydays only and signed by staff.

THE REPORT AUDITOR GENERAL OF THE BETIO SHIPYARD COMPANY LIMITED FOR THE YEARS ENDED 31/08/07and 31/08/08

AUDIT OPINION

Scope

I have audited the accounts of the Betio Shipyard Company Limited for the years ended 31st August 2007 and 2008.

The preparation and the presentation of the accounts and the information contained therein, as well as the existence of internal controls, which should be fully effective for the prevention of error or fraud, are the responsibilities of the Company. My responsibility is to express an opinion on the accounts based on my audit as required by Part VII of the Public Finance (Control and Audit) Ordinance 1976 and the Company Ordinance.

I conducted my audit in accordance with the normally accepted auditing Standards and Statutory requirements to provide reasonable assurance as to whether the accounts are free from material mis-statements. My procedures include examination, on a test basis, of evidence supporting the amount and other disclosures in the account and the evaluation of accounting policies and significant accounting estimates.

These procedures have been undertaken to form an opinion as to whether, in all material respects, the accounts are presented fairly in accordance with the normally accepted Accounting Concepts and Statutory requirements, so as to present a view of the Company which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

Qualification

I am unable to satisfy myself with the correctness of figures presented in the account due to the:

- Absence of cash flow statement for years 2007 and 2008.
- No bank reconciliation for years 2007 and 2008.
- No fixed assets register and additions were not included in the financial statements.
- No proper records/ details on PPI for years 2007 and 2008.

Audit Opinion

In my opinion, because of the existence of the limitation on the scope of my audit work as described in the preceding qualifications paragraph, I am unable to and do not express an opinion as to whether financial statements presented fairly in accordance with applicable Accounting Standard, the Company Ordinance 1976 and the mandatory professional reporting requirements of the financial position of Betio Shipyard Company Limited as at 31 August 2007 and 2008, and the results of its operations and its cash flows for the year then ended.

Raimon Taake   Date ………/12/2009

Auditor General

BETIO SHIPYARD LTD

AUDITED ACCOUNTS

FOR YEAR ENDED 31/08/2008

BETIO SHIPYARD LTD

BALANCE SHEET AS AT 31/08/08

	Notes	2008	2007
		$	$
Current Assets			
IBD	3	62,522.01	240,450.85
Stock	4	1,631,192.77	1,114,383.07
Debtors	5	1,077,607.63	1,398,995.80
Sundry Debtors	6	25,307.11	19,482.87
		2,796,629.52	**2,773,312.59**
Less Current Liabilities	7	1,035,864.67	799,103.30
Working Capital		**1,760,764.85**	**1,974,209.29**
Add Non Current Assets	8	998,263.52	1,043,964.90
		2,759,028.37	**3,018,174.19**
Less Non Current Liabilities	9	920,061.40	920,061.40
NET WORTH		**1,838,966.97**	**2,098,112.79**
Represented by :			
Share Capital	10	500.00	500.00
Capital Reserve	11	1,097,156.85	1,097,156.85
Accumulated Profit and (Loss)		1,703,821.09	1,619,200.45
Profit and (Loss) this period		(232,508.29)	84,620.64
PPI		(730,002.68)	(703,365.15)
		1,838,966.97	**2,098,112.79**

The attached notes form an integral parts to these Financial Statements

CHAIRMAN .... DIRECTOR ....

Date 5/12/09 Date 5/12/09

BETIO SHIPYARD LTD
INCOME AND EXPENDITURE ACCOUNTS
FOR YEAR ENDED 31/08/08

	2008	2007
Sales	2,138,604.04	3,712,193.85
Less Sales Returns	16,102.45	26,604.20
	2,122,501.59	**3,685,589.65**
Less Cost of Sales	1,511,245.52	2,643,935.95
	611,256.07	**1,041,653.70**
Add Other Income		
Investment Income	4,191.90	8,661.81
Miscallaneous	89,556.96	33,701.65
	705,004.93	**1,084,017.16**
Expenditure		
Salaries & Wages	473,110.91	538,815.52
Staff Allowances	15,426.20	6,773.61
Staff Overtime	40,455.10	41,959.51
Office expenses	20,387.19	27,482.81
Telephone	28,617.87	26,294.07
Maintenance	44,465.04	37,132.53
Utilities	15,483.92	20,494.42
Fuels & Lubs	16,518.84	23,986.45
Indirect expenses	1,824.00	3,050.25
Bank Charges	39,489.38	29,079.31
Promotion & Adverts	4,819.80	4,474.20
Entertainments	3,341.90	5,730.20
Subsidysed house rents	13,488.66	12,352.50
Staff training	954.46	1,209.42
Travelling	41,692.35	53,778.53
KPF Company contribution	45,064.62	35,458.54
Company Registration fees	19,157.50	12,920.00
Depreciation	46,460.88	69,120.00
Insurance	2,554.00	1,619.60
Leave Grants	24,850.00	25,200.00
Board expenses	6,030.00	4,585.00
Rental & Licences	18,222.00	15,871.80
Audit Fees		1,000.00
Charter	10,957.00	
Petty Cash Expense	4,141.60	1,008.25
	937,513.22	999,396.52
Operating Profit before tax	-232,508.29	84,620.64

BETIO SHIPYARD LTD
Notes to the Financial Statements
For Year Ended 31/08/2008

1. Betio Shipyard Ltd was incorporated on 4th February under registered No.26 with a share capital 500 ordinary share of $1 each wholly subscribed by the Government of Kiribati.

2. The financial statement are prepared under the historical cost convention including the valuation of fixed assets and certain stock.

   a) Sales

   Sales figure represent the total invoice price of repair and construction work billed to customers and also include direct retail from our Marine Hardware (Store).

   b) Depreciation

   Depreciation is calculated to write off the cost of valuation of fixed assets by equal installments over their expected useful lives at the following rates;

Buildings	-	1%
Slipway	-	2%
Plants & Equipments	-	20%
Office Furniture & Equipments	-	25%
Vehicles	-	20%

   c) Stock & Work In Progress (WIP)

   Stock and Work In Progress are stated at a lower of cost. The cost is determined on a First In First Out (FIFO) basis and it includes transport, import levy, custom duty and handling charges.
   In the case of WIP, direct material, direct labour and other direct cost are included in the account.

3. Bank Balances	Year 2008	Year 2007
	$	$
Interest Bearing Deposit	61,661.42	188,262.59
Cheque Account	838.64	52,109.76
Petty Cash	21.95	78.50
	62,522.01	**240,450.85**

4. Stock	Year 2008	Year 2007
	$	$
Inventory	864,122.68	968,018.10
WIP	892,829.97	833,329.34
	1,756,952.65	1,801,347.44
Less provision for stock obsolescence	91,246.50	91,246.05
Job Deposits	34,513.38	595,717.53
	1,631,192.77	1,114,383.87

5. Debtors

	Year 2008	Year 2007
	$	$
Kiribati Shipping Services Ltd	-	117,473.53
Others (Ministries, Privates)	1,075,759.72	1,279,674.36
Freights	201,191.09	201,191.09
	1,276,950.81	1,598,338.98
Less provision for doubtful debts	199,343.18	199,343.18
	1,077,607.63	**1,398,995.80**

6. Sundry Debtors	Year 2008	Year 2007
	$	$
Staff salary advance	18,158.92	18,080.52
Imprest	447.50	-
Income tax arrears	1,917.15	1,402.35
Handling Charges	4,783.54	-
	25,307.11	19,482.87

7. Current Liabilities

	Year 2008 $	Year 2007 $
Overseas Suppliers	494,746.28	454,913.25
Payroll Liabilities	53,967.73	51,383.65
Overdraft	487,150.66	292,806.40
	1,035,864.67	**799,103.30**

8. Non Current Assets

Balances as at 01/09/07	3,491,042.03	3,490,282.53
Accumulated depreciation	2,492,778.51	2,446,317.63
	998,263.52	**1,043,964.90**

9. Non Current Liabilities

ADB Loan	920,061.40	920,061.40

10. Share Capital

Authorised & issued ordinary Share Of $1 each issue to Government	$500.00	$500.00

11 Capital Reserve

Fixed Assets	839,222.16	839,222.16
Base Stock	109,022.00	109,022.00
WIP	69,413.69	69,413.69
Working Capital	79,500.00	79,500.00
	1,097,156.85	**1,097,156.85**

BETIO SHIPYARD LTD

AUDITED ACCOUNTS

FOR YEAR ENDED 31/08/2007

BETIO SHIPYARD LTD

BALANCE SHEET AS AT 31/08/07

	Notes	2007	2006
		$	$
Current Assets			
IBD	3	240,450.85	336,561.19
Stock	4	1,114,383.07	683,034.89
Debtors	5	1,398,995.80	1,346,530.93
Sundry Debtors	6	19,482.87	91,554.68
		2,773,312.59	**2,457,681.69**
Less Current Liabilities	7	799,103.30	592,935.79
Working Capital		**1,974,209.29**	**1,864,745.90**
Add Non Current Assets	8	1,043,964.90	1,014,962.63
		3,018,174.19	**2,879,708.53**
Less Non Current Liabilities	9	920,061.40	920,061.40
NET WORTH		**2,098,112.79**	**1,959,647.13**
Represented by :			
Share Capital	10	500.00	500.00
Capital Reserve	11	1,097,156.85	1,097,156.85
Accumulated Profit and (Loss)		1,619,200.45	1,696,780.22
Profit and (Loss) this period		84,620.64	(77,579.77)
PPI		(703,365.15)	(757,209.67)
		2,098,112.79	**1,959,647.63**

The attached notes form an integral part s to these financial Statements

CHAIRMAN ....

Date 5/12/09

DIRECTOR ....

Date 5/12/09

BETIO SHIPYARD LTD
INCOME AND EXPENDITURE ACCOUNTS
FOR YEAR ENDED 31/08/07

	2007	2006
		$
Sales	3,712,193.85	4,488,069.43
Less Sales Returns	26,604.20	48,476.10
	3,685,589.65	**4,439,593.33**
Less Cost of Sales	2,643,935.95	3,273,348.51
	1,041,653.70	**1,166,244.82**
Add Other Income		
Investment Income	8,661.81	360,303.88
Miscallaneous	33,701.65	64,730.42
	1,084,017.16	**1,591,279.12**
Expenditure		
Salaries & Wages	538,815.52	537,391.20
Staff Allowances	6,773.61	29,960.85
Staff Overtime	41,959.51	50,139.36
Office expenses	27,482.81	41,725.92
Telephone	26,294.07	26,652.22
Maintenance	37,132.53	22,573.37
Utilities	20,494.42	21,078.21
Fuels & Lubs	23,986.45	19,813.72
Indirect expenses	3,050.25	1,377.34
Bank Charges	29,079.31	15,387.40
Promotion & Adverts	4,474.20	4,297.75
Entertainments	5,730.20	7,878.47
Subsidysed house rents	12,352.50	10,629.00
Staff training	1,209.42	115.00
Travelling	53,778.53	30,729.11
KPF Company contribution	35,458.54	34,894.68
Company Registration fees	12,920.00	8,939.10
Depreciation	69,120.00	69,120.00
Insurance	1,619.60	6,210.13
Leave Grants	25,200.00	23,666.70
Board expenses	4,585.00	6,655.00
Rental & Licences	15,871.80	10,813.35
Audit Fees	1,000.00	
Fire Loss		688,308.16
Petty Cash Expense	1,008.25	502.85
	999,396.52	1,668,858.89
Operating Profit before tax	84,620.64	-77,579.77

BETIO SHIPYARD LTD
Notes to the Financial Statements
For Year Ended 31/08/2007

1. Betio Shipyard Ltd was incorporated on 4th February under registered No.26 with a share capital 500 ordinary share of $1 each wholly subscribed by the Government of Kiribati.

2. The financial statement are prepared under the historical cost convention including the valuation of fixed assets and certain stock.

   a) Sales

   Sales figure represent the total invoice price of repair and construction work billed to customers and also include direct retail from our Marine Hardware (Store).

   b) Depreciation

   Depreciation is calculated to write off the cost of valuation of fixed assets by equal installments over their expected useful lives at the following rates;

Buildings	-	1 %
Slipway	-	2%
Plants & Equipments	-	20%
Office Furniture & Equipments	-	25%
Vehicles	-	20%

   c) Stock & Work In Progress (WIP)

   Stock and Work In Progress are stated at a lower of cost. The cost is determined on a First In First Out (FIFO) basis and it includes transport, import levy, custom duty and handling charges.
   In the case of WIP, direct material, direct labour and other direct cost are included in the account.

3. Bank Balances

	Year 2007	Year 2006
	$	$
Interest Bearing Deposit	188,262.59	256,751.31
Cheque Account	52,109.76	49,809.88
Petty Cash	78.50	
	24[illegible]450.85	306,561.19

4. Stock

	Year 2007	Year 2006
	$	$
Inventory	968,018.10	655,755.95
WIP	833,329.34	118,524.99
	1,801,347.44	774,280.94
Less provision for stock obsolescence	91,246.84	91,246.05
Job Deposits	595,717.53	
	1,114,383.07	**683,034.89**

5. Debtors

	Year 2007	Year 2006
	$	$
Kiribati Shipping Services Ltd	117,473.53	118,865.03
Others (Ministries, Privates)	1,279,674.36	1,249,408.33
Freights	201,191.09	201,191.09
	1,598338.98	1,566,464.45
Less provision for doubtful debts	199,343.18	219,933.52
	1,398,995.80	**1,346,530.93**

6. Sundry Debtors

	Year 2007	Year 2006
	$	$
Staff salary advance	18,080.52	16,695.22
Freight levy	-	66,905.39
Income tax arrears	1,402.35	-
Handling Charges	-	8,154.07
	19,482.87	**91,554.68**

7. Current Liabilities

	Year 2007	Year 2006
	$	$
Overseas Suppliers	454,913.25	423,866.41
Payroll Liabilities	51,383.65	33,587.94
Overdraft	292,806.40	135,481.44
	799,103.30	592,935.79

8. Non Current Assets

Balances as at 01/09/04	3,490,282.53	3,392,160.26
Accumulated depreciation	2,446,317.63	2,377,197.63
	1,043,964.90	**1,014,962.63**

9. Non Current Liabilities

ADB Loan	920,061.40	920,061.40

10. Share Capital

Authorised & issued ordinary Share Of $1 each issue to Government	$500.00	$500.00

11 Capital Reserve

Fixed Assets	839,222.16	839,222.16
Base Stock	109,022.00	109,022.00
WIP	69,413.69	69,413.69
Working Capital	79,500.00	79,500.00
	1,097,156.85	**1,097,156.85**