REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Captain Cook Hotel Ltd

For the Years Ended 31st December 2015 and 2016

Kiribati Audit Office

December 2017

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Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

To the Readers of
Captain Cook Hotel Ltd Financial Statements
for the years ended 31 December 2015 and 2016

The Auditor-General, Mrs Matereta Raiman, is the auditor of Captain Cook Hotel Ltd (CCHL)

The audit covered the CCHL's compliance with the requirements of Part VII of the Public Finances (Control and Audit) Ordinance 1976, the Company Ordinance, 1979 and SOE Act, 2013 that apply to the Financial Statements of CCHL for the years ended 31 December 2015 and 2016.

CCH's Board of Director's Responsibility.

The Board and Management are responsible for the preparation and fair presentation of the Financial Statements in accordance with Generally Accepted Accounting Practice in Kiribati, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

In accordance with Part VII of the Public Finance (Control and Audit), 1976, our responsibility is to express an opinion on the Financial Statements. We conducted the audit in accordance with International Standards of Supreme Audit Institutions. Because of the absence of records that leads to the limitation of scope, described in the Basis for Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer Opinion

- CCH Financial Statements for 2015 and 2016 were based on closing balances from 2013 Financial Statement as there was no financial statements prepared for 2014 therefore confirmed the inaccuracy of the opening balances that were included in the fiscal years 2015 and 2016.

- There was significant limitation of scope noted as most of the accounting records, general ledgers and source documents for CCHL were not available and for some, Management cannot provide explanations to justify their reported balances. More details are provided here under:

    - Some of the account balances as identified below were carried forward balances from prior years and Management cannot explain or provide supporting documents for each:
        - Bulk store and Supplies $414,678
        - Sundry Creditors $36,976
        - Debtors $46,595
    - Cash flow Statements for both years were not provided.
    - General Ledger for 2015 and 2016 were not available.
    - 2016 Cash Receipt and Payment books were not available.
    - 2015 Cash Receipt book was incomplete as there were no record from part June to 31 Dec, 2015
    - 2015 Cash Payment book was also incomplete, no record from Apr to Dec, 2015
    - No Fixed Asset Register for both years.
    - No Board Minutes for both years.
    - Payment Vouchers for the month of March and May 2015 were missing.
    - No bank reconciliation done for the year 2015 and 2016.

- Of the randomly selected PVs, 80% or $45k worth of PVs were found to have been disbursed without following the Payment control system. This confirmed that most of the payments being expensed in the account were improper.

- We were unable to verify CEO's claim as true due to the following:
    - The CEO's claims of $14,073 in total were passed without the Boards approval, basically because these were paid out from petty cash.
    - The amount of $17k had not been expended for the purpose for which it's been drawn for but rather been spent on the CEO's claims.

  - The practice as such was improper, as it had not followed the procurement process for payment of claims especially amounts exceeded $5,000. This was serious misappropriation of fund.
- Audit noted an overpayment of $7,374 regarding Former CEO's Allowance paid in 2016. This had contributed to increasing the Net Loss in 2016.
- We were unable to verify Trade Debtors balance for the years 2015 and 2016 due to the following:
  - The Debtors balance under Suspense account of $46,595, was carried forward from prior years however Management cannot provide listing to support the balance.
  - Advance and Imprest account of $4,897 appeared as a negative in 2015 and 2016, but in 2013 FS the same account appeared as well with same amount but positive. This indicated that such account balance was incorrectly stated.
  - Account Receivable listing and Financial Statement balance did not match. Table below shows the variances:

    Table 7: Account Receivable Variances:

Account Receivable	Listing	Aging/FS	Variances
2016	$10,372.97	$15,016.27	**-$4,643.30**
2015	$ 12,048.02	$ 14,060.02	**-$2,012.00**

- We were unable to verify Fixed Assets balances and additions due to the following:
  - Fixed Asset Register was not available.
  - There has not been any physical counting of Fixed Assets for the years 2015 and 2016 and prior.
  - Based on our sample testing on Fixed Assets additions 2015 we found that the FS addition of $20,448 did not reflect all purchases. Fixed Assets purchases worth $30,607.30 in total had been omitted. Some additions cannot be verified as supporting Payment Vouchers were not available.
  - 2015 Depreciation as per Profit and Loss Account of $55,179.98 was different from that on the Note 11 of $13,789.37 and a variance of $41,390 was noted. This had also affected the accumulated depreciation in 2016.
  - 2015 FS showed zero Accumulated Depreciation balance meaning there hasn't been any assets for CCH in 2014 and prior when in fact there were. This had clearly indicated that Fixed Assets in 2015 has been materially misstated. The accumulated depreciation balance shown by end of 2013 was $2,310,744.92.

- Total cost for Fixed Assets of $1,046,796.43 in 2016 FS did not match the total cost as per Schedule of $1,088,187.06. A variance of $41,390.63 was noted.
- Amongst the Fixed Assets listed in the Schedule for 2015, an asset named Assorted under Plant and Equipment valued $53,300.41 was not itemized and management was unable to provide breakdown.

- We noted that CCH has been providing accommodation at discounted rates to long term guests, yet there has not been any revision made to the rates currently used or a separate special rate set for the concerned guests.
  - We cannot trace any Board discussion or approval regarding the special rates as Board minutes for 2015 and 2016 were not available.
  - From our sample testing on revenue the following charges per night were made to the following clients:

Table 8: Room revenue:

Client	Room Normal rate per night	Rate Charged (at a discount) per night	Monthly Rent	Annual Rent	Annual Normal revenue expected	Total Revenue forgone
Air Kiribati Crew	$60/$50	$10	$310	$3,720	$ 18,250	$14,530
Water Sanitation Project officer	$80	$16	$500	$6,000	$ 29,200	$23,200

- Throughout 2015 and 2016 there were instances when Staff did not receive their pay for 4 consecutive paydays and later received half pays. This was an evidence indicating that CCH was in serious financial hardship. If CCHL Management and Board had carefully studied CCHL performance and find ways to cut cost and increase revenue like reconsidering the special rates, CCHL could have recovered from incurring losses to gaining profits.
- For most of the payments that we reviewed, we noted that CCHL purchased goods from CCH CEO at very high prices. Again this had contributed to incurring higher cost hence increasing the Net Loss.

Disclaimer Opinion.

Because of the absence of records that leads to the limitation of scope, carrying wrong closing balances from 2013, together with other significant matters described in the Basis for Disclaimer Opinion paragraph above, I have not been able to obtain sufficient appropriate audit evidence, and accordingly I could not express an opinion on the Financial Statements of CCHL for the years ended 31st Dec, 2015 and 2016.

Emphasis of the Matter:

I would like to draw the attention to the matter described below:

- After exploring the compound, the auditors found a small hut built within the CCH's compound which does not belong to CCH. Entering and disturbing grounds of Government's Land and Property without proper authority is a serious offence and this could be taken to court for trespassing.

The audit was completed on 30 November, 2017 and was the date at which my opinion was expressed.

Report on other Legal and Regulatory Requirements

CCH submitted its 2015 and 2016 Financial Statement on 5th July, 2017, therefore indicating CCH's failure in complying with section 20 of the SOE Act, 2013.

Independence

When carrying out the audit we followed the independence requirements stipulated under section 114 (4) of the Kiribati Constitution and the requirements of the International Standards of Auditing.

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

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Mrs. Matereta. Raiman.
Auditor General

Date: 30 Nov. 2017

CAPTAIN COOK HOTEL LTD

STATEMENT OF FINANCIAL PERFORMANCE

FOR YEAR ENDING 31st DECEMBER.....

INCOME		2016	2015
Trading Sales	2	339,333.55	384,890.10
Service Sales	3	278,604.66	584,311.69
Total Sales		617,938.21	969,201.79
EXPENSES			
Deduct : Cost of Goods Sold	4	245,851.79	305,993.29
Gross Surplus		372,086.42	663,208.50
Deduct: Operating Expenses	5	457,718.88	728,248.90
Net Operating Profit/(Loss)		(85,632.47)	(65,040.40)
OTHERS			
Add: Other Items	6	52,262.94	-
Net Loss		(33,369.53)	(65,040.40)

CAPTAIN COOK HOTEL LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31st DECEMBER.....

OWNER'S EQUITY		2016	2015
Capital		500.00	500.00
Retained Profit/(Loss)	7	(98,409.93)	(65,040.40)
Assets Revaluation Reserve		1,428,135.58	1,428,135.58
Total Equity		1,330,225.65	1,363,595.18
CURRENT LIABILITIES			
Accounts Payable	8	8,372.80	73,991.09
Accrued Expenses	9	5,401.00	5,401.00
Payroll Liabilities	10	65,426.29	47,611.91
Total Current Liabilities		79,200.09	127,004.00
Total Equity & Liabilities		1,409,425.74	1,490,599.18
LONGTERM ASSETS			
Fixed Assets	11	960,128.16	1,030,725.36
Suspense Account	12	416,212.00	416,212.00
Total Longterm Assets		1,376,340.16	1,446,937.36
CURRENT ASSETS			
Cash & Bank	13	11,531.01	18,938.09
Accounts Receivable	14	15,016.27	14,060.02
Stock & Supplies	15	6,538.30	10,663.71
Total Current Assets		33,085.58	43,661.82
Total Assets		1,409,425.74	1,490,599.18

Attached notes form part of these financial statements

Chairman
Mapuola Iosua

Director
Selata Ioane

Notes on financial statements

1. Statement of accounting policies

In order to assist an understanding of the figures presented, the following summary explains the significant accounting policies which have been adopted in the preparation of the accounts. These policies are consistent with those adopted in the prior year.

The accounts have been drawn up in accordance with Schedule 7 of the Company Ordinance as in force immediately prior to 1 December 2015.

(1) General system of accounting

Subject to the exceptions noted in the paragraph below dealing with valuation of fixed assets, the accounts have been drawn up on the basis of historical cost principles.

(ii) Valuation of fixed assets

Certain fixed assets have been revalued as shown in the accounts. Increments have been taken to assets revaluation reserve. Decrements have beenoffset against profits. However, no revaluation has been made for the financial years reported. Assets acquired since the last revaluation have been brought to account at cost. Material profits or losses on disposal of fixed assets are taken into account in the Statement of Financial Performance.

(iii) Depreciation

Depreciation related to cost or valuation is provided on fixed assets at rates based on the Schedule 7 of the Income Tax Act.

(iv) Inventories

Stocks are valued at the lower of cost and net realizable value.

		2016	2015
2	Trading Sales		
	Restaurant	126,190.58	273,898.07
	Bar	83,365.23	110,989.03
	Handicraft	90.00	3.00
	Gas Station	128,038.04	-
	Store	1,649.70	-
		339,333.55	384,890.10

3	Service Sales		
	Room	116,566.33	235,168.87
	Rental/Hire	58,059.20	129,341.27
	House Rent	44,161.40	22,051.90
	Internet Phone	3,720.20	7,233.64
	Laundry	691.00	2,224.49
	Gain on Exchange	3,991.00	18,830.98
	Utilities	600.00	5,405.00
	Guiding	44,969.26	136,373.46
	Sundries	3,028.27	19,923.62
	Tip Box	2,210.00	4,332.75
	Bathing	608.00	3,425.71
		278,604.66	584,311.69

Notes on financial statements(cont'd)

		2016	2015
4	Cost of Goods Sold		
	Opening Stock	10,157.63	6,256.00
	Add Purchases	241,556.25	310,401.00
	Deduct Closing Stock	5,862.09	10,663.71
		245,851.79	305,993.29
5	Operating Expenses		
	Wages & Salaries	169,277.48	202,191.85
	KPF Contribution	7,000.16	11,005.00
	Guiding	16,680.80	46,509.45
	Fuel & Oil	84,119.90	105,979.95
	Operating Supplies	4,021.13	19,745.00
	Repair & Maintenance	29,907.55	127,941.00
	Office Expenses	1,659.80	17,859.18
	Hire/Rental	12,233.18	57,494.30
	Travel/Transport	28,609.04	42,889.44
	Internet & Phone	3,097.98	2,114.00
	Entertainment	3,442.10	7,689.00
	Bank Charges	746.70	2,409.14
	Board Meetings	5,684.50	3,660.00
	License	3,305.50	4,183.00
	Accounting Fee	4,330.00	-
	Audit Fee	-	-
	Depreciation	72,878.90	55,179.98
	Leave Grant	9,660.55	15,900.00
	Sundries	1,063.61	5,498.61
		457,718.88	728,248.90
6	Other Items		
	TTT	43,991.09	-
	MLIPD	24,239.30	-
	ANZ Chargeback	(13,717.45)	-
	Gulf Port Primary School	(2,250.00)	-
		52,262.94	-
7	Retained Profit/(Loss)		
	Balance	(65,040.40)	-
	Net Loss	(33,369.53)	(65,040.40)
		(98,409.93)	(65,040.40)
8	Accounts Payable		
	TTT	-	43,991.09
	JMB	5,822.80	30,000.00
	Timee Ieremia	1,800.00	-
	Betty Trading	750.00	-
		8,372.80	73,991.09

Notes on financial statements (cont'd)

		2016	2015
9	Accrued Expenses		
	Tamaroa Business Advisory	3,650.00	3,650.00
	Tekanaokoro Brick	1,751.00	1,751.00
		5,401.00	5,401.00
10	Payroll Liabilities		
	KPF	52,813.83	43,557.74
	KPF Loan	3,594.95	-
	Income Tax	3,137.05	-
	House Rent - Linnix	3,497.23	2,005.94
	Water - Linnix	2,383.23	2,048.23
		65,426.29	47,611.91
11	Fixed Assets		
	Cost	1,046,796.43	1,024,066.73
	Additions	-	20,448.00
		1,046,796.43	1,044,514.73
	Deduct Depreciation		
	Accumulated Depreciation	13,789.37	-
	Current Depreciation	72,878.90	13,789.36
		86,668.27	13,789.36
	Net Book Value	960,128.16	1,030,725.37
12	Suspense Account		
	Debtors	46,595.00	46,595.00
	Advance & Imprest	(4,897.00)	(4,897.00)
	Prepayment	1,812.00	1,812.00
	Audit Fee	(5,000.00)	(5,000.00)
	Sundry Creditors	(36,976.00)	(36,976.00)
	Bulk Store & Supplies	414,678.00	414,678.00
		416,212.00	416,212.00
13	Cash & Bank		
	Petty Cash	102.50	150.00
	Bank	11,428.51	18,788.09
		11,531.01	18,938.09
14	Accounts Receivable		
	Staff & Others	10,372.97	14,060.02
	Government Ministries & Others	4,643.30	-
		15,016.27	14,060.02

Notes on financial statements (cont'd)

		2016	2015
15	Stock & Supplies		
	Restaurant	896.37	3,357.30
	Bar	1,082.02	6,800.33
	Gas Station	3,708.34	-
	Store	175.36	-
	Supplies	676.21	506.08
		6,538.30	10,663.71