REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

KIRIBATI COPRA MILL COMPANY LIMITED
FOR THE YEAR ENDED 31st DECEMBER 2008

KIRIBATI NATIONAL AUDIT OFFICE

August. 2009

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF KIRIBATI COPRA MILL COMPANY LIMITED FOR THE YEAR ENDED 31st DECEMBER 2008

EXECUTIVE SUMMARY

Findings:

- The Kiribati Copra Mill Co. Ltd. shows a dramatic fall in its profit for 2008 when compared to 2007. (paragraph 2.1)
- Sale has decreased by 16.71% to $3.3 million as well as the gross profit by 40.21% to $0.9 million. (paragraph 2.1)
- The Return On Investment was decreased by 2.10% (paragraph 2.1)
- Kiribati Copra Mill Co. Ltd. had a sound liquidity ratio of 6.11:1. (paragraph 2.2)
- Outstanding staff advance (paragraph 3.1)
- Some IBD confirmation slips are noted missing. (paragraph 3.2)
- The total debt of $18,838, since 2006 were still outstanding. (paragraph 3.3)
- Cash loss totaling $7,655.70 was noted. (paragraph 3.5)
- Incorrect overtime being paid to Staff and missing overtime dockets for Admin. Staff(paragraph 3.6)

We recommendation that:

- The company should maintain a sustainable increase in its sales and to try to keep the total expenditure as minimal as possible in order to maintain its profitability. Supply of copra is also an issue and should be addressed to avoid an alarming fall in future sales.
- The company should maintain its positive working capital and net worth in order to sustain a secured financial position.
- Management should ensure that employees clear their outstanding debts before leaving the company.
- Management should ensure source documents of the company especially for the years unaudited are kept safely for auditing purposes otherwise would be noted as missing.
- Debts collection system should be improved.
- Supervision over daily cash collection should be improved.
- Overtime dockets should be checked prior payment is made.

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF KIRIBATI COPRA MILL COMPANY LIMITED FOR THE YEAR ENDED 31st DECEMBER 2008

As required by part VII of the Public Finance (Control and Audit) Ordinance 1996, I have complete d my audit of the Kiribati Copra Mill Company Limited for the year ended 31st December 2008 in accordance with the relevant statutory provisions and normally accepted Auditing Standards.

1 GENERAL

Kiribati Copra Mill Company Limited (KCMCL) was incorporated on 15 May, 2001 and commenced operation June 2001. The company is wholly owned by the Government of Kiribati with a share capital of 300,000 ordinary shares of $1 each.

The objects for which the company is incorporated are unrestricted but will initially operate a processing and production facility for copra based products as well as by-products for local and overseas consumption.

2 Finance

The performance of the company for the last three years is shown below:

Year ended 31st Dec.	2008	2007	2006	Variances 2008	Variances 2007
	$	$	$	%	%
Sales	3,348,320.65	4,020,064.00	1,842,310.25	(16.71)	118.21
Cost of Sales	2,398,809.35	2,432,072.00	1,551,432.68	(1.37)	56.76
Gross profit/(loss)	949,511.30	1,587,992.00	290,878.00	(40.21)	445.93
Other revenue	221,808.11	8,104.54	3,484.71	2636.84	132.57
Total Expense	911,865.71	759,749.00	815,364.00	20.02	(6.82)
Operating Profit/(Loss)	259,453.70	**836,347.54**	**(521,001.29)**	(68.98)	60.53
Prior Period Items	(198,143.50)	**(163.00)**		121,460.43	100.00
Net Profit/(Loss)	61,310.20	**836,184.54**	**(521,001.29)**	(92.67)	(260.50)

2.1 Performance

The above analysis shows that the Company has not performed well this year when compared with last year. The sales decreased by 16.71% to $3.3 million and the gross profit decreased by 40.21% to $0.9 million. The operating profit was dramatically decreased by 69% which was due to an increase in total expenses of 20% together with a significant decline in sales. However, the net profit was dropped substantially by 92.7% which is greatly impacted by the PPI charged during the year.

Return on Assets (ROA)
The ROA is calculated by dividing profit before tax by total assets. The ROA for KCMCL for 2008 was down by 2.10% when compared to 27.72% for 2007. The KCMCL management has been earning less money on investment this year than last year. That is efforts being put into the KCMCL business activities were not as worthwhile as last year given the fall as such. The higher the ROA number, the better, because the company is earning more money on less investment.

2.2 Financial Position – Liquidity Analysis

A comparison of the cash position of the company for the last three years is provided herewith:

Year ended 31 Dec	2008	2007	2006
Working Capital	1,840,086.35	1,511,291.78	467,655.77
Current Ratio	8.68:1	4.71:1	2.42:1
Quick Ratio	6.12:1	4.25:1	1.29:1

In 2008 the KCMCL had a good working capital of $1.8 million and a healthy current ratio of 8.68:1. It also had a satisfactory liquidity ratio of 6.12:1. The comparative table above shows that the current ratio and quick ratio has continued increasing which implies that the company is financially sound and is able to meet its liabilities when they fall due. It should be noted, however that the normal current ratio is 2:1, thus such ratios for both years are deemed excessive, meaning cash are tied up in inventory.

3 Audit findings
The followings are some of our audit findings, which require management's actions as adequately addressing them will improve the company's operation:

3.1 Staff Advance

Observation
It was noted that one of the staff had left the company without clearing his/her advance, dated back to 2006. This is a deviation from the company policy which states that advances should be recovered within two weeks.

Recommendation
Management should ensure that employees clear all their outstanding advances before leaving the company and to comply with the company's regulation.

Management Response:
To continue to follow up with the concern officer. Policy on advance will be strictly observed by KCMCL Accounts.

observed by KCMCL Accounts.

3.2 IBD

Observation
The IBD confirmation slips for June, July, August and September could not be located therefore we could not verify the correctness and completeness of the two IBDs: 188048 and 520790. In other words, confirmation slips are the only supporting document which will be required for verifying the IBD as they give full details such as: interest earned and maturity date.

Recommendation
We recommend that management should ensure source documents/or confirmation slip from the bank are kept safely for auditing purposes.

Management Response:
Confirming that the above deposit confirmation slips were missing since our contact address at BOK recorded at Bairiki instead of Betio. Corrective action for changing contact address has been made early this year thus latest slips are forwarded correctly. It is further noted that since the slips for the Y/E were available it is assumed therefore that the balance plus interest disclosed in the account need not to be changed.

3.3 Debtors Control

Observation
It was noted that the total debt of $18,838 since 2006 were still outstanding. This amount was made up of two customers namely Customs Division and Peter Creamer. Failure in recovering such debts will result in a loss of company's money.

Recommendation
Management should improve the system on debts collection and follow up such debt.

Management Response
Peter Creamer:- to further follow up through Kiribati Consulate Sydney Office; Customs Division:- follow up on going. It is noted original claims forwarded were missing at the Customs; photocopies will be made and to be forwarded.

3.4 Fixed Asset Register

Observation
Audit found that the control over fixed asset register has improved. However, the adjustment that was recommended in my previous report was yet to be done. As agreed, an adjustment to the Motor Vehicle would be reflected in the 2009 account.

Recommendation

Audit recommends that the variances noted in my previous report should be cleared in order to give an accurate Net Book Value of the Assets.

Management Response
Management noted the adjustment for the Fixed Assets in the 2007 account and will therefore produce a listing of those adjustment to be incorporated in the 2009 accounts.

(Note: this comment will be deleted if we get the update from KCMCL)

3.5 Missing Cash Sales

Observation
Audit noted with concern the lost of cash sales, totaling $7,655.70, which is substantial and should have been avoided by keeping it in a strong safe. Unfortunately, the company does not have safe at the time.

Recommendation
Proper supervision over daily cash collection should be strengthened and it should always be kept in a strong safe, if not banked on that day. Management should look for ways of recovering such amount from the officer concerned.

Management Response
This involves the loss of cash from the Store/Canteen. The cause of the lost of cash at the store was uncertain since there was no sign of break in as reported by Police. The Cashier is the target person to be blamed but will need submission of the case to the court for hearing. The Staff concerned is awaiting confirmation of termination.

3.6 Control over overtime

Observation
The control over overtime was inadequate. Some of the overtime dockets being examined were not agreed with the calculation of the working hours shown on the individual cards. As noted some were paid for the wrong hours as overtime dockets were not properly scrutinized by the responsible officer. It was also noted that overtime dockets for Admin Staff are not available during the audit.

Recommendation
Management is strongly advised to comply with the necessary accounting internal control procedures, that is, approval should be sought prior to proceeding of payment.

Management Response
Management noted with concern the inaccuracy of the overtime calculations formular as reported. The system should be devised to avoid further issues of lack of overtime sheets etc.

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF KIRIBATI COPRA MILL COMPANY LIMITED FOR THE YEAR ENDED 31st DECEMBER 2008

Scope

I have audited the accounts of the Kiribati Copra Mill Company Limited for the year ended 31st December 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 1996 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 Standards 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.

Audit Opinion

In my opinion, the financial statements of the Kiribati Copra Mill Company Limited are properly drawn up so as to:

a) Present fairly in all material respects, the Company's affairs as at 31st December 2008, its results of operations and cash flow for the years then ended,
b) Comply with the provisions of Part VII of the Public Finance (Control and Audit) Ordinance 1976 and the Company Ordinance; and
c) Comply with other mandatory professional reporting requirements.

……………..
Mr. Raimon. Taake.
Auditor General
Kiribati National Audit Office.

4th August, 2009