REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Promoting Transparency and Accountability

KNAO

For the Parliament and the People of Kiribati

Kiribati Oil Company Ltd
For The Year Ended 31 December 2010

KIRIBATI NATIONAL AUDIT OFFICE

April 2012

KNAO

For the Parliament and the People of Kiribati

P.O.Box 63
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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 Kiribati Oil Company Limited's financial statement For the year ended 31 December 2010

The Auditor-General is the auditor of Kiribati Kiribati Oil Company Limited (KOIL).

The audit covered the company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1981 and Company Ordinance 1976 that apply to the financial statements of the KOIL for the year ended 31 December 2010.

Qualification

I am unable to satisfy myself as to the correctness on the financial statements based on the following:

- The provision provided for doubtful debts for Tarawa is $2.3M is unrealistic because it is much higher than the total debtors' balance of $1.4M. The explanation for this could not be provided.
- Supporting documentation for two adjustment totalling $532K which related to gain from PPI could not be located.
- No fixed assets register maintained to support fixed assets and depreciation balances of $3.8M and $951K, respectively.

Qualified Audit 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 KOIL 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 incorporates 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 2006 and the results of its operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Company Ordinance, Cap 79.

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 incorporate 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

KIRIBATI OIL COMPANY LTD

INCORPORATED IN KIRIBATI NO.21 9/12/86

PO BOX 488
Betio, Tarawa.
Republic of Kiribati

Telephone: 00 686 26052
00 686 26341
Fax 00 686 26572

12th May, 2011.

Auditor General,
Kiribati National Audit office,
Bairiki, Tarawa.

Dear Sir,

ANNUAL ACCOUNTS FOR THE YEAR 2010

We are pleased to submit, under cover of this letter, a copy of our unaudited accounts for the year 2010 for auditing.

Copied addressees are also provided with the same copy for retention and other legitimate purposes.

Yours faithfully,

Anterea Tawaia,
Manager for Accounting & Financial Services.

Cc: Registrar of Companies,
Ministry of Commerce, Industries & Cooperatives,
Betio.

Commissioner of Inland Revenue,
Ministry of Finance and Economic Development,
Bairiki.

KIRIBATI OIL COMPANY LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER, 2010.

KIRIBATI OIL COMPANY LIMITED
DIRECTORS REPORT ON THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER, 2010.

Directors of the Kiribati Oil Company Limited present their report on the financial statements of the company for the year ended 31st December, 2010 as follows.

1. State of Affairs

In the opinion of directors, the accompanying balance sheet gives a true and fair view of the state of affairs of the company as at 31st December 2010 and the accompanying income statement and cash flow statement give a true and fair view of the operating result and cash flow of the company for the year ended 31st December, 2010.

2. Dividend

There is no dividend declared or paid during the financial year.

3. Certificate of Solvency

In accordance with section 136 of the Companies Ordinance, directors of the Kiribati Oil Company Limited confirm that:-

(a) As at 31st December 2010, the company owned fixed assets valued at $3,758,088 current assets valued at $10,866,972, and nothing was owed to the company by directors or shareholders of the company as at that date.

(b) As at 31st December 2010, the company had an outstanding debt with ANZ (Kiribati) Ltd of $1,364,988, a sum owed to the Japanese Non-Project Grant Aid scheme amounting to $1,397,512, company tax payable amounting to $2,233,957, and nothing was owed by the company to directors or shareholders of the company as at that date.

(c) In the opinion of directors of the company, the company was able to pay its debts and liabilities as at 31st December 2010.

4. Subsequent Events

Since the date of the financial statements, there has been no significant event with material effect on the financial position or prospect of the company.

Signed in accordance with a resolution of directors passed in their meeting held on **18th April, 2011.**

....
Chairman
18/05/11

....
Director

KIRIBATI OIL COMPANY LTD
Consolidated Income Statement
Year ended 31st December 2010

	Notes	2010	2009
Revenue	3	30,674,448	29,865,256
less Cost of Sales	4	22,703,656	22,333,193
Gross Profit		**7,970,792**	**7,532,063**
Expenses:			
Staff Costs		1,092,628	881,886
Travelling		105,322	62,809
Motor Vehicle Expenses		52,501	129,416
Vehicle Hire		34,997	11,053
Freight & Handling		721,730	451,078
Agency Costs		44,740	345,442
Directors Expenses		27,916	30,582
Office Supplies		30,484	13,325
Office Stationery		16,134	16,417
Office Repairs		10,713	14,824
Telecom Charges		70,907	63,270
Electricity & Water		85,691	83,517
LPG Sales Commission		12,971	11,378
Entertainment		6,041	6,566
Council Charges		5,580	6,105
Training		58,748	20,230
Depreciation	12	951,611	865,396
Advertisement/Promotion		10,441	8,745
General Repairs & Maintenance		154,603	183,456
Uniform & Safety Wears		19,404	9,992
Lab Testing		27,070	23,758
Fees	5	24,554	43,139
Land Lease		5,768	7,845
Miscellaneous Expenses	6	29,091	31,671
Tanker Discharge		152,703	103,558
Loan Interest		228,549	280,043
O/D Interest		202	249,186
Bank Charges		16,266	112,193
Loss on Foreign Exchange		241,639	
Total Expenses		**4,239,003**	**4,066,878**
Operating Profit for the year		**3,731,789**	**3,465,185**
Prior Period Items	7	798,904	-1,946,553
Net Profit before Tax		**4,530,693**	**1,518,632**
Income Tax		1,580,742	526,521
Net Profit after Tax		**2,949,950**	**992,111**

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Chairman.
10/05/11

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Director.

KIRIBATI OIL COMPANY LTD
Consolidated Balance Sheet
As at 31st December 2010

	Notes	2010	2009
Current Assets			
Cash & Cash Equivalents	8	3,361,783	4,841,191
Trade Debtors	9	2,010,221	1,721,042
Sundry Debtors & Prepayments	10	4,274,012	2,304,076
Less Provin for Doubtful Debts		-2,801,796	-2,818,192
Stock	2.2	4,022,750	2,149,570
Total Current Assets		**10,866,972**	**8,197,687**
Current Liabilities			
Sundry Creditors & Accruals	11	81,676	56,322
Company Tax Payable		2,233,957	983,214
Total Current Liabilities		**2,315,633**	**1,039,536**
Working Capital		**8,551,339**	**7,158,151**
Long Term Assets			
Property, Plants and Equipments	12	3,758,088	4,261,967
Long Term Liabilities			
Bank Loan		1,364,988	2,046,439
Mobil Acquisition Liability	13	0	466,666
NPGA Loan		1,397,512	2,254,998
		2,762,500	**4,768,103**
NET WORTH		**9,546,927**	**6,652,015**
Shareholders Equity:			
Paid up Capital		500	500
Reserves		1,033,548	1,033,548
Retained Earnings	14	8,512,879	5,617,967
Total Equity		**9,546,927**	**6,652,015**

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Chairman.
15/05/11

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Director.

KIRIBATI OIL COMPANY LTD
Consolidated Cash Flow Statement
Year ended 31st December 2010

	Notes	2010	2009
Cash flows from Operating Activities:			
Cash receipts from Customers		28,400,540	30,323,274
Cash paid to Suppliers & Employees		-27,336,580	-23,352,997
Loan Interest Payment		-228,751	-274,663
Payment of Income Tax		-330,000	-210,000
		505,209	6,485,614
Cash flows from Financing Activities:			
Bank Loan Repayment		-681,451	-562,337
NPGA Fuel Loan		-857,486	2,034,003
		-1,538,937	1,471,667
Cash flows from Investing Activities:			
Acquisition of fixed assets		-447,732	-590,772
		-447,732	-590,772
Movement in Cash and Cash Equivalents		-1,481,460	7,576,509
Cash and Cash Equivalents, 1st January		4,841,191	-2,735,318
Cash and Cash Equivalents, 31st December		3,359,730	4,841,191

Reconciliation of cash flows from Operating Activities:

	2010	2009
Net Profit (Loss) for the year	2,949,950	992,111
Add: Depreciations	951,611	865,396
Accrued Income Tax Expense	1,580,742	526,521
Payment of Income Tax	-330,000	-210,000
Decrease/Increase in Current Assets	-4,148,692	3,148,026
Increase/Decrease in Current Liabilities	25,354	-659,535
Adjustment to Cash Balances	-2,053	0
Adjustment to Retained Earnings	-55,039	2,756,428
Adjustment to Mobil Acquisition Liability	-466,666	-933,333
	505,209	6,485,614

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Chairman.
14/05/11

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Director.

KIRIBATI OIL COMPANY LTD
Notes to the Financial Statements
Year ended 31st December 2010

1. General

The Kiribati Oil Company is a private company owned by the Government of Kiribati registered on 9th December 1986 under the Companies Ordinance with Registration No.21. Its authorised and paid-up capital is 500 shares of $1.00 each.

The main activities of the company are the importing, wholesaling and retailing of all petroleum products in Kiribati including lubes and all gas products.

The accounting period for the company is from January to December of each year and the official currency used is the Australian dollar.

2. Principal Accounting Policies

The financial statements are prepared under the historical cost convention in accordance with generally accepted accounting principles, standards and relevant legislations applicable in Kiribati and the principal accounting policies adopted by the company are set out below.

2.1 Depreciation

Depreciation is calculated to distribute the cost of an asset over its useful life (less scrap value if any) using the straight line method. The following rates are used:

Plant & Machinery	25%
Office Equipment	25%
Fuel Tanks	10%
Fuel Pipes	10%
Water Tanks	10%
Outer Islands Projects	5%
Motor Vehicles	20%
Buildings	5%
Furniture & Fittings	25%

2.2 Stock

Stock is valued at the lower of cost and net realisable value and recorded using the average cost flow method. Stock recorded and counted at the end of the year is as follows:

	2010	2009
Tarawa	2,261,319	1,379,240
Kiritimati	1,761,432	770,331
TOTAL	4,022,750	2,149,570

3. Revenues

	2010	2009
Sales:		
ADO	18,795,993	17,825,131
ULP	5,701,050	6,438,860
DPK	1,498,283	1,733,938

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Chairman.
15/05/11

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Director.

AvGas	202,020	302,932
JetA1	2,404,393	2,008,102
Lubes	702,339	1,019,558
LPG	458,924	345,791
Drums	19,076	27,309
Cylinders	7,219	6,781
Others	159,426	6,026
Other Revenues:		
Freight on Sales	67,803	69,698
Overtime Charges	32,826	29,742
IBD Interest	14,997	11,303
Gain from Foreign Exchange	571,053	0
Others	39,046	40,087
	30,674,448	29,865,256

4. Cost of Sales

	2010	2009
ADO	11,031,346	12,567,875
ULP	5,716,980	5,167,480
DPK	2,438,707	2,820,631
AvGas	230,981	454,079
JetA1	1,596,221	393,501
Lubes	961,745	625,566
LPG	387,316	304,061
Drums	152,510	0
Cylinders	138	0
Others	187,712	0
	22,703,656	22,333,193

5. Fees

	2010	2009
Valuation Fee		
Legal Fee		
Subscription Fee	514	
Consultancy Fee	17,405	17,027
Audit Fee	3,000	21,000
Licence Fee	3,635	5,112
	24,554	43,139

6. Miscellaneous Expenses

	2010	2009
Donations	4,523	7,200
Recruitment & Tender	4,413	8,887
Reference Materials	0	227
Bonriki Aviation Repairs & Maint.	0	0
Mobil Expense	6,961	0
Waste Oil, Spills & Leakage	827	6,697
Sundries	12,367	8,659
	29,091	31,671

7. Prior Period Items

	2010	2009
Tarawa:		
Sundry Creditors & Accruals	534,503	-8,585
Sundry Debtors & Prepayments	-16,833	-14,492

Chairman.
10/08/11

Director.

Stock - Operation	90,963	2,108
Stock - Agency	0	-45,132
Accumulated Depn Control	0	-287,110
Fixed Assets Control	0	-1,513
Cheque No.1 Account	2,728	-974,414
Cashier Shortage	0	-213,396
Cash in transit	0	189,090
Bounced Cheques	0	189,502
Freight Refund	0	61,754
Due from Xmas	73,475	-169,382
Due to Xmas	261	-1,124,810
Mobil Disbursement	0	1,185,823
NPGA Scheme	0	-592,559
Payroll Cheque A/c	0	55,009
Remittance to Xmas	0	-4,310
Temporary bank a/c 762593	0	-83,380
Undeposited Funds	0	-108,084
Kiritimati:		
Creditors	114,482	0
Sundry Debtors & Prepayments		-2,640
Bank Account	-675	
Retained Earnings		-33
Net Gain from PPI	798,904	-1,946,553

8. Cash and Cash Equivalents

	2010	2009
Cheque A/c - Tarawa	2,018,410	3,382,408
Cheque A/c - Kiritimati	0	163,206
Temporary A/c - Tarawa	0	0
IBD - Kiritimati	1,310,174	1,295,177
Petty Cash - Tarawa	200	200
Petty Cash - Kiritimati	200	200
Xmas Imprest Account - 737022	32,759	0
Trw Deposit Account - 269110	40	0
Undeposited Funds - Tarawa	0	0
Undeposited Funds - Xmas	0	0
	3,361,783	4,841,191

9. Trade Debtors

	2010	2009
Tarawa	1,402,988	1,183,703
Kiritimati	607,234	537,339
	2,010,221	1,721,042

10. Sundry Debtors & Prepayments

	2010	2009
Agencies - Northern	-2,867	29,871
Agencies - Central	4,749	81,047
Agencies - Southern	-35,729	-22,332
Payroll Cheque	-1,383	2,601
Cash in Transit - Tarawa	221,573	82,489
Deposit to Vendors	2,046,843	286,997
Deposit to Exxon Mobil	0	1,291,987

Chairman.
10/05/11

Director.

Dishonoured Cheques - Tarawa	1,442,638	380,836
Dishonoured Cheques - Kiritimati	362	362
Cashier's Shortage - Tarawa	0	0
Freight Refundable - Tarawa	213,759	121,905
Imprest - Tarawa	29,203	45,015
Salary Advance - Tarawa	4,546	677
Admin Coffee Fund	0	0
Operation Coffee Fund	0	0
Sundry Debtors	350,318	2,622
	4,274,012	2,304,076

11. Sundry Creditors & Accruals

	2010	2009
Mobil Disbursement	0	0
Trade Creditors - Kiritimati	0	0
Drum Deposit - Tarawa	500	1,980
Drum Deposit - Kiritimati	0	0
Cylinder Deposit - Tarawa	0	0
Sundry Deposit - Tarawa	532	0
Sundry Deposit - Kiritimati	0	12,500
Sundry Creditors	14,639	0
Suspense - Kiritimati	0	0
Payroll Cheque - Tarawa	0	0
Payroll Cheque - Kiritimati	0	0
Payroll Payables - Tarawa	36,574	19,477
Payroll Payables - Kiritimati	5,458	338
Admin Coffee Fund	0	0
Operation Coffee Fund	0	0
Directors Tax Payable	6,954	3,529
Withholding Tax - Tarawa	76	554
TSKL Charge Payable	0	0
Other Current Liabilities	0	0
Audit Fees Payable	0	0
Public Utilities Board	11,179	11,179
Accrued Expenses - Xmas	5,765	6,765
	81,676	56,322

12. Property, Plant and Equipment

	2010	2009
(Refer attached schedule)	3,758,088	4,261,967

13. Mobil Acquisition Liability

The acquisition of Mobil assets was completed in June 2007 and, although the selling price is not stated in the "Buy-Out" Agreement, there was an unwritten understanding that the assets had a fair value of $2.8 million which was to be recovered through premiums included in product prices over a period of 3 years

	2010	2009
Opening Balance	466,666	1,400,000
less Premium Recoveries	-466,666	-933,333
Closing Balance	0	466,666

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Chairman.
16/05/11

....
Director.

14. Retained Earnings

	2010	2009
Opening Balance	5,617,967	1,342,907
Adjustment	-55,039	3,282,950
Current Earnings	2,949,950	992,111
Closing Balance	8,512,879	5,617,967

Chairman.

10/5/11

Director.