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 for the year ended 31st December, 2011.

Kiribati National Audit Office

May, 2013

KNAO
For the Parliament and the People of Kiribati
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KIRIBATI NATIONAL AUDIT OFFICE

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

Audit Report

To the readers of Kiribati Oil Company Ltd financial statements for the year ended 31 December 2011

The Auditor-General, Mrs Matereta Raiman is the auditor of Kiribati Oil Company Ltd.

The audit covered the Company's compliance with the requirements of Part VII of the Public Finançes (Control and Audit) 1981 and the Company Act 1979 that apply to the financial statements of the KOIL for the year ended 31 December 2011.

Qualification

I am unable to satisfy myself as to the correctness of the Financial Statements of KOIL as at 31st Dec, 2011 due to the following:

- Back up copy of Part 1, Jan to May Xmas 2011 MYOB was missing thus hindered us from verifying balances contained therein.
- Provision for doubtful debt cannot be verified due to the following:
    - Had an unreasonable provision of $2,387,566.08 which exceeded Trade Debtors balance of $1,277,536.53.
    - Unable to provide explanation and basis of how the provision was made.
- Trade debtors had an out of balance of $23,727 noted between the control account and subsidiary accounts. Control
- Fixed asset balance cannot be verified due to the following:
    - Opening balance for Xmas Fixed assets 2011 was taken from the incorrect 2010 Xmas Fixed assets balance.
    - Inconsistency of accounting records for 2011 Fixed asset.

- 2011 Xmas branch Fixed Asset depreciation was overstated in the accounts. We were unable to quantify the error since the confirmation on the amount was not provided.
- No year-end physical counting of fixed assets
- Fixed asset register was not available.
- Some fixed assets reported 'Zero net book values' but still operational.

- Sundry Debtors could not be verified due to the following:
  - Lack of reconciliation for Deposit to Vendors and Freight levy fund (components of Sundry debtors account).
  - No register maintained for released goods.
  - Lack of supporting document and firm explanation regarding the outstanding deposits from Xmas branch of $308,778.25 shown in Sundry Debtors.
- Unable to verify Stock balance due to the following:
  - High variances noted between the daily physical counting of stock and the dip records as well as meter readings and the actual stock sold.
  - Lack of monitoring and review of daily stock counting.
  - Stock controls were poorly maintained.
  - Transfer records for Jet A1 and ADO fuel from the main to storage tanks at Bonriki and Bikenibeu were not maintained properly.
- Freight Levy Fund was significantly overstated in the accounts by $45,602.70.
- Improper payment of Executive housing allowance paid to some Executive officers.
- No review was performed on bank reconciliations for 2011 thus having errors remained unsettled until 2012.
- Audit noted KOILs cash shortage of $1,446.60 reported in 2011 however there was no action taken during the year.
- Unable to verify Cash in transit account due to the following:
  - Lack of reconciliation and poor update of records for Cash in transit account.
  - Cash in transit was significantly understated by $45,602.70.

Adverse opinion

Because of **the significant effects of the matters** discussed in the qualification paragraph above, in my opinion, the financial statements of the Kiribati Oil Company Ltd **DO NOT** present fairly, in accordance with generally accepted accounting practise as applied in Kiribati:

- the financial position of the company as at 31 December 2011,
- the results of operations and,
- cash flows for the year then ended.

The audit was completed on 1 May 2013, and was the date at which our opinion was expressed.

Basis of Opinion

We carried out the audit in accordance with the Generally Accepted Auditing Standards as applied 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 did not examine every transaction, 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 the KOIL 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 KOIL as at 31 December 2011 and the results of its operations and cash flows for the year ended on that date. The Board of Directors responsibilities were clearly specified in the Public Finance (Control and Audit) Act 1981 and Kiribati Oil Company Act.

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.

.... Date: 1|05|13

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

KIRIBATI OIL COMPANY LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31ST DECEMBER, 2011.

KIRIBATI OIL COMPANY LIMITED
DIRECTORS REPORT ON THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER, 2011.

Directors of the Kiribati Oil Company Limited present their report on the financial statements of the company for the year ended 31st December, 2011 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 2011 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, 2011.

2. Dividend
There was a. dividend of $500,000.00 being declared and 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 2011, the company owned fixed assets valued at $3,661,402 current assets valued at $12,664,090, 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 $667,361, a sum owed to the Japanese Non-Project Grant Aid scheme amounting to $2,416,719, company tax payable amounting to $1,503,957, 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 2011.

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 SBM 16/12S held on **28th June, 2011.**

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Chairman

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Director

KIRIBATI OIL COMPANY LTD

Consolidated Income Statement

Year ended 31st December 2011

	Notes	2011	2010
Revenue	3	31,052,346.96	30,674,448.29
less Cost of Sales	4	25,096,449.47	22,703,656.13
Gross Profit		**5,955,897.49**	**7,970,792.16**
Expenses:			
Staff Costs		1,157,328.66	1,092,627.90
Travelling		88,214.14	105,321.67
Motor Vehicle Expenses		49,144.19	52,500.99
Vehicle Hire		16,704.90	34,996.55
Freight & Handling		517,062.22	721,729.54
Agency Costs		81,834.34	44,739.98
Directors Expenses		32,299.55	27,916.30
Office Supplies		22,140.80	30,483.67
Office Stationery		17,125.81	16,133.96
Office Repairs		8,279.14	10,712.52
Telecom Charges		26,163.66	70,907.32
Electricity & Water		78,977.33	85,691.17
LPG Sales Commission		10,009.00	12,971.40
Entertainment		6,142.90	6,040.50
Council Charges		5,237.00	5,580.00
Training		37,387.51	58,748.19
Depreciation	12	947,830.90	951,610.80
Advertisement/Promotion		5,936.60	10,441.35
General Repairs & Maintenance		130,565.19	154,602.50
Uniform & Safety Wears		16,131.19	19,404.44
Lab Testing		25,859.59	27,069.52
Fees	5	18,366.97	24,554.49
Land Lease		628.95	5,767.85
Miscellaneous Expenses	6	35,016.03	29,091.05
Tanker Discharge		106,368.71	152,702.73
Silver Jubilee		26,173.87	0.00
Loan Interest		142,373.29	228,549.15
O/D Interest		0.00	202.00
Bank Charges		14,119.78	16,266.45
Loss on Foreign Exchange		33,614.88	241,639.39
Total Expenses		**3,657,037.10**	**4,239,003.38**
Operating Profit for the year		**2,298,860.39**	**3,731,788.78**
Prior Period Items	7	-1,556,484.41	798,904.02
Net Profit before Tax		**742,375.98**	**4,530,692.80**
Income Tax		0.00	1,580,742.48
Net Profit after Tax		**742,375.98**	**2,949,950.32**

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Chairman.

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Director.

KIRIBATI OIL COMPANY LTD
Consolidated Balance Sheet
As at 31st December 2011

	Notes	2011	2010
Current Assets			
Cash & Cash Equivalents	8	2,923,717.86	3,361,783.40
Trade Debtors	9	1,962,018.40	2,010,221.26
Sundry Debtors & Prepayments	10	6,228,139.58	4,274,012.36
Less Provin for Doubtful Debts		-2,801,795.57	-2,801,795.57
Stock	2.2	4,352,009.24	4,022,750.23
Total Current Assets		**12,664,089.51**	**10,866,971.68**
Current Liabilities			
Sundry Creditors & Accruals	11	344,748.75	81,676.44
Company Tax Payable		1,503,956.55	2,233,956.55
Total Current Liabilities		**1,848,705.30**	**2,315,632.99**
Working Capital		**10,815,384.21**	**8,551,338.69**
Long Term Assets			
Property, Plants and Equipments	12	3,475,709.65	3,758,088.07
WIP - Betio Projects		185,692.22	-
Total Long Term Assets		**3,661,401.87**	**3,758,088.07**
Long Term Liabilities			
Bank Loan		667,361.20	1,364,987.91
NPGA Loan		2,416,718.81	1,397,511.81
		3,084,080.01	**2,762,499.72**
NET WORTH		**11,392,706.07**	**9,546,927.04**
Shareholders Equity:			
Paid up Capital		500.00	500.00
Reserves		1,033,548.00	1,033,548.00
Retained Earnings	13	10,358,658.07	8,512,879.04
Total Equity		**11,392,706.07**	**9,546,927.04**

Chairman.

Director.

KIRIBATI OIL COMPANY LTD
Consolidated Cash Flow Statement
Year ended 31st December 2011

	Notes	2011	2010
Cash flows from Operating Activities:			
Cash receipts from Customers		30,268,977.53	28,329,117.99
Cash paid to Suppliers & Employees		-27,581,989.60	-25,271,474.50
Loan Interest Payment		-142,373.29	-228,549.15
Payment of Income Tax		-2,310,742.48	-330,000.00
Net Cash flow from Operating Activities		233,872.16	2,499,094.34
Cash flows from Financing Activities:			
Bank Loan Repayment		-840,000.00	-910,000.00
NPGA Fuel Loan		1,019,207.00	-2,620,769.61
		179,207.00	-3,530,769.61
Cash flows from Investing Activities:			
Acquisition of fixed assets		-851,144.70	-447,732.10
		-851,144.70	-447,732.10
Movement in Cash and Cash Equivalents		-438,065.54	-1,479,407.37
Cash and Cash Equivalents, 1st January		3,361,783.40	4,841,190.77
Cash and Cash Equivalents, 31st December		**2,923,717.86**	**3,361,783.40**

Reconciliation of cash flows from Operating Activities:

	2011	2010
Net Profit (Loss) for the year	742,375.98	2,949,950.32
Add: Depreciations	947,830.90	951,610.80
Accrued Income Tax Expense	0.00	1,580,742.48
Decrease/-Increase in Current Assets	- 2,235,183.37	-4,148,691.68
Increase/-Decrease in Current Liabilities	-466,927.69	1,276,096.96
Adjustment to Retained Earnings	142,373.29	411,090.37
Adjustment to Retained Earnings	1,103,403.05	-55,038.57
Adjustment to Mobil Acquisition Liability	0.00	-466,666.34
	233,872.16	2,499,094.34

Chairman.

Director.

KIRIBATI OIL COMPANY LTD
Notes to the Financial Statements
Year ended 31st December 2011

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 FIFO cost flow method. Stock counted at the end of the year is as follows:

	2011	2010
Tarawa	3,038,218.41	3,038,218.41 ?
Kiritimati	1,313,790.83	1,761,431.62
TOTAL	4,352,009.24	4,022,750.23

3. Revenues

	2011	2010
Sales:		
ADO	17,293,005.78	18,795,993.11
ULP	7,056,289.51	5,701,050.36
DPK	1,762,695.55	1,498,283.03

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Chairman.

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Director.

AvGas	74,852.04	202,019.56
JetA1	3,401,845.63	2,404,393.03
Lubes	862,909.24	702,338.83
LPG	378,324.89	458,924.07
Drums	38,056.16	19,076.20
Cylinders	6,387.60	7,219.45
Others	31,485.27	159,425.67
Other Revenues:		
Freight on Sales	71,797.38	67,802.91
Overtime Charges	46,917.09	32,826.00
IBD Interest	4,858.43	14,997.11
Gain from Foreign Exchange	470.79	571,053.16
Others	22,451.60	39,045.80
	31,052,346.96	30,674,448.29

4. Cost of Sales

	2011	2010
ADO	13,069,830.22	11,031,345.60
ULP	6,613,092.19	5,716,979.73
DPK	2,076,219.38	2,438,706.64
AvGas	73,792.10	230,981.29
JetA1	2,403,869.71	1,596,221.18
Lubes	584,734.51	961,745.22
LPG	165,420.37	387,316.29
Drums	94,783.78	152,510.04
Cylinders	80.08	137.70
Others	14,627.13	187,712.44
	25,096,449.47	22,703,656.13

5. Fees

	2011	2010
Subscription Fee	8,672.91	514.30
Consultancy Fee	2,479.16	17,405.00
Audit Fee	3,000.00	3,000.00
Licence Fee	4,214.90	3,635.19
	18,366.97	24,554.49
	0.00	

6. Miscellaneous Expenses

	2011	2010
Donations	13,206.70	4,522.60
Recruitment & Tender	2,215.10	4,413.30
Reference Materials	334.13	0.00
Mobil Expense	5,787.94	6,960.63
Waste Oil, Spills & Leakage	2,259.00	827.34
Sundries	11,213.16	12,367.18
	35,016.03	29,091.05
	0.00	

7. Prior Period Items

	2011	2010
Tarawa:		
Sundry Creditors & Accruals	-1,580,860.03	534,502.71
Sundry Debtors & Prepayments	57,659.43	-16,832.90
Stock - Operation		90,963.10
Stock - Agency	5,223.74	0.00
Accumulated Depn Control		0.00

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Chairman.

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Director.

Fixed Assets Control		0.00
Cheque No.1 Account	13,393.40	2,727.64
Cashier Shortage		0.00
Cash in transit	-51,900.95	0.00
Bounced Cheques		0.00
Freight Refund		0.00
Due from Xmas		73,475.08
Due to Xmas		261.10
Kiritimati:		
Creditors		114,481.99
Sundry Debtors & Prepayments		
Bank Account		-674.70
Retained Earnings		
Net Gain from PPI	-1,556,464.41	798,904.02

8. Cash and Cash Equivalents

	2011	2010
Cheque A/c - Tarawa	2,388,163.29	2,018,410.29
IBD - Kiritimati	0.00	1,310,173.92
Petty Cash - Tarawa	400.00	200.00
Petty Cash - Kiritimati	0.00	200.00
Cash in transit	392,874.59	0.00
Xmas Imprest Account - 737022	115,501.98	32,759.19
Trw Deposit Account - 269110	26,906.30	40.00
Undeposited Funds - Tarawa	-128.30	0.00
	2,923,717.86	3,361,783.40
	0.00	

9. Trade Debtors

	2011	2010
Tarawa	1,277,536.53	1,402,987.70
Kiritimati	684,481.87	607,233.56
	1,962,018.40	2,010,221.26
	0.00	

10. Sundry Debtors & Prepayments

	2011	2010
Agencies - Northern	59,600.44	-2,866.68
Agencies - Central	-25,318.41	4,748.77
Agencies - Southern	14,363.94	-35,729.08
Agency - Teraina	-9,073.91	
Agency - Tabuaeran	6,044.09	
Spare Parts - Operations	20,201.77	0.00
Payroll Cheque	0.00	-1,382.55
Cash in Transit - Tarawa	0.00	221,573.33
Deposit to Vendors	2,687,545.78	2,046,842.60
Dishonoured Cheques - Tarawa	2,928,845.13	1,442,637.83
Dishonoured Cheques - Kiritimati	628.00	362.00
Cashier's Shortage - Tarawa	0.00	0.00
Freight Refundable - Tarawa	174,156.48	213,759.42
Staff Imprest	5,124.16	29,202.78
Salary Advance - Tarawa	6,556.08	4,545.63
Sundry Debtors	353,445.19	350,318.31
Prepayments	* 6,020.84	
	6,228,139.58	4,274,012.36

Chairman.

Director.

11. Sundry Creditors & Accruals

	2011	2010
Trade Creditors	-1,839.87	0.00
Drum Deposit - Tarawa	0.00	500.00
Deposits from Customers	43,348.10	0.00
Sundry Deposit - Tarawa	0.00	532.00
Sundry Creditors	20,853.43	14,638.90
Suspense - Kiritimati	196,641.59	0.00
Payroll Payables - Tarawa	41,663.63	36,574.41
Payroll Payables - Kiritimati	7,444.65	5,457.61
Directors Tax Payable	12,558.85	6,953.50
Withholding Tax - Tarawa	1,859.87	75.97
Other Payroll liabilities	-1,652.99	0.00
Public Utilities Board	4,944.12	11,179.02
Accrued Expenses - Xmas	18,927.37	5,765.02
Due to Xmas	0.00	0.00
Due to Tarawa	0.00	0.00
	344,748.75	81,676.43

12. Property, Plant and Equipment

	2011	2010
(Refer attached schedule)	**3,661,401.87**	**3,758,088.07**

13. Retained Earnings

	2011	2010
Opening Balance	8,512,879.04	5,617,967.29
Adjustment	1,103,403.05	-55,038.57
Current Earnings	742,375.98	2,949,950.32
Closing Balance	**10,358,658.07**	**8,512,879.04**

Chairman. **Director.**