REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

OTINTAAI HOTEL LIMITED FOR THE YEAR ENDED 31st DECEMBER 2007.

KIRIBATI NATIONAL AUDIT OFFICE

August. 2009

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF OTINTAAI HOTEL LIMITED (OHL) FOR THE YEARS ENDED 31ST MARCH 2007

Executive Summary

Key Findings:

- 3.0 – OHL reported an operating loss of $190,376.96.
- 4.1 – All of the Board meeting papers were not presented for audit.
- 4.2 - No Bank Reconciliations were undertaken for the 2007 year.
- 4.3 - Repayments on the overdraft loan have been omitted valued at $25,500.00.
- 4.4 - The un-deposited cash figure of $202,002.54 is incorrect.
- 4.5 - The IBD balance is incorrect and no schedules have been prepared.
- 4.6 - No details provided on the Bounce cheques valued at $2,566.95.
- 4.7 – The Special Imprest of $5,265.04 could not be substantiated.
- 4.8 - No fixed Asset Register, nor maintenance plan maintained.
- 4.9 - The trade debtors figure has increased in 2007 by $25,415.00 and debtors are not being adequately managed.
- 4.10 - The trade creditors was significantly increased by $145,731.00 and there were payments omitted of $9,397.31.
- 4.11 – Management of Sundry creditors needs to be improved.
- 4.12 – No repayments were made against the Hydroponic Loan.
- 4.13 - Audit fees for the year ended 31/12/07 and prior years valued to $5,150.00 is still outstanding.

Recommendations:

✓ 3.0 - Management should seek ways to improve performance by increasing sales and reducing expenses.

✓ 4.1 - Management should ensure that all documents are maintained kept in a secure place.

✓ 4.2 - Management should ensure that the bank reconciliations are prepared on a monthly basis.

✓ 4.3 – The overdraft loan accounts should be adjusted.

- ✓ 4.4 – The un-deposited cash account should be adjusted.
- ✓ 4.5 - The IBD figure should be adjusted and schedules should be prepared to record movement of IBD as a priority.
- ✓ 4.6 - Bounced cheques should be written-off.
- ✓ 4.7 – The Special imprest should be written-off.
- ✓ 4.8 – Asset register and maintenance plan to be established and maintained.
- ✓ 4.9 – Improve debt collection processes and write off debts that are bad.
- ✓ 4.10 – Improve cash flows to allow payment of Trade Creditors and adjust mis-postings.
- ✓ 4.11 – Improve cash flows to allow payment of Sundry creditors.
- ✓ 4.12 – Hydroponic Loan repayment schedule needs to be maintained.
- ✓ 4.13 – Outstanding audit fees need to be paid.

Finally I would note that some of the issues raised are repeat audit issues raised in our last audit over the period 2004-06 that to date still have not been ~~auctioned~~. Priority should be given to clearing these matters a matter of priority.
actioned.

As required by part VII of the Public Finance (Control and Audit) Ordinance 1976, I have completed n audit of the Otintaai Hotel Ltd (OHL) for the year ended 31st March 2007 in accordance with the releva statutory provisions and normally accepted Auditing Standards.

1 GENERAL

OHL was incorporated on 16th May 1984 to take over the operations of the Atoll Hotel Ltd. and commence operations on 1st August 1987. The company is entirely owned by the Government of Kiribati.

2 FINANCE

2.1 PERFORMANCE

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

	2007	2006	2005	2004	Variances 2007/2006	2006/2005	2005/2004
Income	$	$	$	$	%	%	%
Accommodation	294,196.81	301,424	334,378	399,248	-2.39	-9.86	-16.25
Bar	444,131.25	480,466	541,139	486,804	-0.07	-11.21	11.16
Catering	224,224.34	243,600	332,743	336,066	-7.95	-26.79	-0.99
Administration	149,946.57	144,915	204,275	117,505	3.47	-29.06	73.84
Net Sales	**1,112,498.97**	**1,170,405**	**1,412,535**	**1,339,623**	-4.94	-17.14	5.44
COGS	422,549.53	473,547	603,404	456,387	-10.76	-21.52	32.21
Gross profit	**689,949.44**	**696,858**	**809,131**	**883,236**	-0.99	-13.88	-8.39
Less Expenditure							
Depreciation	156,323.16	152,447.22	165,737	144,869	2.54	-8.02	14.41
Bad and Doubtful debts	0	0	0	49,860			-100.00
Other Expenses	724,003.24	744,845	1,066,599	736,174	-2.80	-30.17	44.88
Total Expenses	**880,326.40**	**897,292.22**	**1,232,336**	**930,903**	-1.89	-27.19	32.38
Operating Profit	**-190,376.96**	**200,434.22**	**-423,205**	**-47,667**	-5.02	-52.64	787.84
Gain on Disposal	0	0	0	0			
Dividend declared	0	0	0	0			
PPI	0	424,679	30,077	1,700		1311.97	1669.24
Company tax	0	0	0	0			
Net Profit/(Loss)after tax	**-190,376.96**	**224,244.78**	**-393,128**	**-45,967**	-184.90	-157.04	755.25

As can be seen from the above table, OHL has been continuously reporting operating losses (before PP since 2004. Inadequate sales figures compared to expenses and profit margins are the major contributin factors for such an unsatisfactory performance.

2.2 FINANCIAL POSITION 2007

2.2.1 A comparison of the financial position of the company for the last three years is detailed in the tables below:

					Variances		
Ended 31 march	2007	2006	2005	2004	2007	2006	2005
	$	$	$	$	%	%	%
Current Assets	326,598	160,692	132,231	265,793	103.24	21.52	-50.25
Less Current Liability	620,624	391,461	196,490	131,182	58.54	99.23	49.78
Working Capital	**-294,026**	**-230,769**	**-64,259**	**134,611**	27.41	259.12	-147.74

2.2.2 Current Ratio

Current Assets/	$326,599
Current Liabilities	$620,625
	0.53:1

2.2.3 Quick Ratio

Cash	$192,322
Plus: Account receivables/	$64,106
Current Liabilities	$620,625
	0.41:1

As highlighted from the above analysis the company liquidity is getting progressively worse from 2005 t 2007. This suggests that the company is unable to meet all its obligations and commitments immediately (when they fall due.

3. Recommendation for Financial Performance and Positions

- ✓ Management should improve its performance by formulating new marketing or business strategies t increase sales income and reduce its costs. As a part of this the company should review its prof margins for each activity.
- ✓ Given the liquidity issues a cash flow budget should be produced to management on a regular bas or closely monitored so as to be able to determine a cash flow position from time to time.

4. Audit Findings

4.1 Board meeting papers

Observations

The Board meeting papers were checked and most of them were not available or missing during the audit. Below is the Board meeting papers sighted during the audit.

Board meetings issue no.	Date
No. S2	28/01/07
?	10/01/07
No. S3	24/02/07
Special meeting	11/03/07

Recommendation

It is recommended that all board meeting papers should be maintained and kept in a safe place.

4.2 No Bank reconciliation for the year 2007

Observations

It was found that the bank reconciliation for the 2007 year had not been done. This issue was raised in my previous audit report for 2004-2006 and it is particularly disappointing that this matter has not been addressed now for over four successive financial years.

The bank balance disclosed in the financial statement was different to the Bank statement balance as at 31/3/07 as shown below, and in turn could not be verified by my office.

Financial statement	-$120,645.15
Bank statement	$ 27,929.64
Variance	**-$ 92,715.51**

Recommendation

It is critical now after raising the issue in successive audit reports that the OHL commence undertaking bank reconciliation on a monthly basis.

Response

Currently the Account department is doing their monthly bank reconciliation as of 1st of April 2008 with a closing bank balance as at 31/03/07 of $27,929.64.

4.3 Over draft loan account

Observations

The balance of -$150,375.51 disclosed in the financial statement was incorrect because there were monthly repayments being omitted in the accounts for the months of November, December 2006 and January, Feb and March 2007 at $4,250.00 / month as per the bank statements.

Ledger account	$150,375.51
Bank statement	$129,396.52
Variance Plus interest	**$ 20,978.99**

Recommendation
Adjustment is required for omitted repayments valued $25,500.

Response
The Ag FM confirmed that auto repayments made by the Bank on a monthly basis through OHL cheque account.

4.4 Un-deposited Cash

Observation
It was found that the un-deposited cash valued at $202,002.54 in the current assets is incorrect.

Without the bank reconciliation, the audit check through other records such as Bank statements, deposit book, receipt books and a diary book for daily deposits and noted that the collections as above were duly deposited in March 2007.

Recommendation
The un-deposited cash valued at $202,002.54 in the Balance sheet should be reversed.

Response
The Ag FM explained that there's a lack of skill by the staff using the MYOB when doing the postings. As well it should have been solved when the Bank reconciliation was done to show up if there have outstanding deposits. Properly they will go through this account and make adjustment on cash have been deposited.

4.5 Interest Bearing Deposit

Observation
As per my previous audit report for the year 2004-2006, OHL did not bother to prepare its IBD schedule for the year 2007 to record the movement of their IBD, and as detailed. Furthermore, the IBD balance disclosed in the financial statement at $23,001.12 was a closing balance as at 31/3/06, that was brought forward without any interest matured and added for the year ended 31 March 2007

Recommendation
The IBD balance disclosed in the financial statement is incorrect for the year 31/3/07 and needs to be adjusted accordingly. Furthermore IBD schedules should be prepared as a priority.

Preparing IBD schedule is required to show the actual IBD year end balance and to prevent any discrepancies, miscalculation and hence to give a true and correct balance in the financial statement.

Response
The Account Department will go through their IBD by obtaining bank certificate from the Bank and to try to prepare their IBD schedule in their coming 2008 financial account.

4.6 Bounce Cheques $2,566.95

Observation

The bounce cheques could not be verified due to the non listing available during the audit. Also it was noted that these bounce cheques were being brought forwarded from previous years without the details to show bona fide persons and amounts.

Recommendation
It is recommended that the bounce cheques be written off.

Response
The Account department could not even trace back to find bona fide persons due to the non listings, no details and the cheques were gone missing and agreed to be written off prior the approval from the management.

4.7 Special Imprest

Observation
The imprest goes back several years, currently at $5,265.04 and could not be verified as there was inadequate supporting documents to show up the person's name and amount owed.

Recommendation
It is recommended that the imprest be written off.

Response
The Ag FM explained that the special imprest account was related to the OHL staff's travel out standing imprest when such balance was a brought forward from previous years. Also the supporting documents were noted to be missing.

4.8 Fixed Asset

Observation
There's no fixed asset register for 2007 as was the case in my previous audit report covering the years 2004 to 2006. In fact OHL has poor control over its fixed assets in that some could be hired to the public and appeared to have no loan book, no physical counting regularly and finally OHL has no stores procedures.

Repair and maintenance
The OHL has no proper plan/ program being established on repair and maintenance. However, renovation is carried out before major events such as during independence, conferences and etc.

Recommendation
It is recommended that the company implement:
- stores procedures and
- immediately open up a assets register, and

- commence physical stocktakes, and
- establish a robust maintenance plan

Response
At last the Ag FM will put this in the management attention to implement the stores procedures when the account department will maintain the fixed asset register, loan book and regular physical counting will be conducted.

4.9 Trade Debtors

Observation
The trade debtors has increased when compared with 2006 account by $25,415.00. Clearly there has been little action to collect the outstanding debts and this has been compounded by allowing ministries credit facilities. Also management had not been gone through their trade debtors to determine which amounts are doubtful or bad debts that should be written off. My office found many instances where:

-the Organization no longer operated
-Person confirmed to be dead
-Person had left the country
-Debit notes gone missing

Further, the company has been experiencing poor cash flow due to the long outstanding debts.

Recommendation
OHL should improve its debt collection processes. In particular dormant and unsubstantiated debts should be written off as noted above and it is strongly recommended that credit would not be allowed unless payment for outstanding debts was made.

Response
It was explained that currently they have one account staff assigned to deal with trade debtors such as,

-to go through all the trade debtors account and submit the list of irrecoverable debts to the management for write off action via the board's approval
-to send letters to the individuals
-make follow up actions
-to assist to speed up the collections

OHL has prompt collection of debts when some ministries have paid their outstanding debts thus most were agreed to settle their outstanding. As well staff debtors was currently deducted from their fortnightly salaries.

4.10 Trade Creditors

Observations
The trade creditors has significantly increased when compared with the year 2006 by $145,731.00. Also it is noted that OHL has a poor cash flow to buy goods on cash and secondly it was unable to settle its creditors on a timely basis.

Further the company has not reconciled its creditors noting there were payments valued to $9397.31 that were miss-posted.

Recommendation
It is recommended that the company should reconcile it creditors and make adjustment where necessar Furthermore the company should endeavor to improve its cash flow in order to settle its creditors on timely basis.

Response
It was explained by the account department that the trade creditors account was not reconciled and believe that there were payments has been not posted to the creditors account.

4.11 Sundry creditors

Observation
OHL could not meet its major sundry creditors regularly due to poor cash flow such as,

Employer kpf contribution	$29,749.91
Employees kpf contribution	$44,976.00
Land lease	$18,832.77
Paye income tax	$65,714.41

Recommendation
We urged that the company will try to collects its debts on a timely basis in order to meet its liabilities whe they fall due. Also the management is encouraged to find ways to increase revenue and cut expenses so can settle it debts in time.

Response
The Account department has tried to settle its sundry creditors when they have sufficient funds in the hands when most of them were outstanding from previous years.

4.12 Hydroponic Loan from DBK $9,674.00

Observations
There's an increased of $340.05 for the year 2007 when compared to the year 2006. Also the audit observe that there's no repayments paid in 2007. As explained that the increase was being the bank charges.

Recommendation
That OHL should maintain its repayments otherwise the balance will increase.

4.13 Outstanding on Audit Fees

Observation
Audit fees for the year ended 31/12/07 and prior years valued to $5,150.00 was still outstanding.

Recommendation

OHL is urge to clear its out standing audit fees thus the audit office can not meet its budgeted targets as expected.

Response

They agreed on their out standing with the intension to be cleared when they have sufficient funds.

5. GENERAL PERFORMANCE AUDIT ISSUES

The following deficiencies were also noted, for the information of the Board but at this stage do not require a formal management response.

5.2 Transfer of staff to other departments

Some staff had been transferred to other departments without new job descriptions or receiving new appointment letters which could leads to lack of understandings in carrying out the job.

5.3 Procurement Act 2002

OHL did not comply with the procurement act as they were forced to obtain goods from local suppliers on credit.

5.4 No proper training on MYOB package

Account staffs were not trained on MYOB since it was installed in 2004 and have cause a lack of understanding in operating this package.

5.5 No proper procedure over stock

It was observed that the OHL has no documented stock procedures. Being implemented verbally the risk is that the procedures could change from time to time when manager's and key staff change.

5.6 OHL's conditions of service

There were number of staff have not yet read the OHL's conditions of service.

AUDIT OPINION

Scope

I have audited the accounts of the Otintaai Hotel Limited for the year ended 31st March 2007.

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

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

These procedures have been undertaken to form an opinion as to whether, in all material respects, tl accounts are presented fairly in accordance with the normally accepted Accounting Concepts and Statutoı requirements, so as to present a view of the Company which is consistent with my understanding of i 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 following:

- No Bank reconciliation for the year 2007
- In-correct bank overdraft loan balance as at 31/3/07
- Un-deposited cash figures were incorrect, and bounced cheques and the Special Imprest could not b substantiated
- No interest added to IBD during the year.
- No asset register
- Payments miss-posted in trade creditors account

Audit Opinion

In my opinion, because of the existence of the limitation on the scope of my audit work as described in th preceding qualifications paragraph, I am unable to and do not express an opinion as to whether financi statements presented fairly in accordance with applicable Accounting Standard, the Company Ordinance 197 and the mandatory professional reporting requirements of the financial position of Otintaai Hotel Limited as a 31 March 2007 and the results of its operations and its cash flows for the year then ended.

RMS

Raimon Taake
Auditor General
Kiribati National Audit Office

18 August 2009