REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

KNAO

AUDIT FOR AN IMPACT FOR THE PUBLIC

Kiribati Shipping Services Limited
For The Year Ended 31st December 2012

Kiribati National Audit Office
December 2014

KIRIBATI NATIONAL AUDIT OFFICE

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Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

To the readers of
Kiribati Shipping Services Limited
For the year ended 31st December 2012

Report on the Financial Statements

The Auditor-General, Mrs Matereta B Raiman, is the auditor of Kiribati Shipping Services Limited (KSSL).

We were engaged to audit the accompanying financial statements of Kiribati Shipping Services Limited (KSSL), which comprise the balance sheet as at 31 December 2012, and the profit and loss statement and the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practices, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 these financial statements. We conducted the audit in accordance with International Standards of Supreme Audit Institutions. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Given that the KSSL did not submit financial statements for audit for the years ended 2008, 2009, 2010 and 2011, auditors were unable to obtain sufficient appropriate audit evidence about whether the opening balances for 2012 contained misstatements that materially affected the financial statements of 2012. The opening balances of the following accounts could not be substantiated:

1. Capital Reserve $3,689,412.67
2. Government Grant $3,174,361.86
3. Retained Earnings $9,959,354.16

Furthermore, we could not verify balance sheet account balances that constituted a considerable majority of KSSL's assets due to

- their historical nature,
- lack of accounting records and fixed asset register, and
- the inability of management to substantiate these balances by other means.

In addition to the above, many large balance sheet amounts in the financial statements did not agree to the underlying accounting records and the differences between the two sets of figures could not be explained by management.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Report on Other Legal and Regulatory Requirements

In reference to Company Ordinance section 62, KSSL is required to submit to the Audit Office its financial statements six months after its financial year. However, we received KSSL 2012 financial statements on 6th June 2014 which represents a breach of the Company Ordinance.

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Mrs Matereta B Raiman

Auditor General

Kiribati National Audit Office

Bairiki Tarawa

05/12/2014

Kiribati Shipping Services Limited
Director's Statement
Financial Statement, Year Ending 31 Dec 2012

In accordance with the resolution of the Board of Directors for KSSL, we are pleased to present the Company's Financial Statement for the year ended 31 December 2012.

We hereby state that the accompanying Financial Statement has been drawn up to give a true and fair view of the financial status of the Company in line with the International Accounting Standards and practices.

With a deteriorating fleet, the Company is struggling to maintain the vessel's scheduled voyages. This has been a major drawback in the Company's operations which had greatly affected the Company's liquidity.

Despite the deteriorating fleet, the Company continued to shoulder a high payroll expense due to a large, inefficient and unproductive workforce.

As an ongoing undertaking aimed at improving the Company's operations, a slow but progressive improvement to the Company's fleet and right sizing of its workforce is being pursued.

For and on behalf of the board and in accordance with the resolution of the Board.

Dated at Betio this ....04th.......... day of ....JUNE.................. 2014.

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Director Director

Kiribati Shipping Services Limited
Profit and Loss Statement
For the year ended 31st December 2012

PARTICULARS	NOTES	2012
Income		
Sales - Moanaraoi		
Pax Fare Out - Moanaraoi		$ 5,227.20
Pax Fare In - Moanaraoi		$ 1,034.00
Cargo Freight Out - Moanaraoi		$ 217,634.65
Cargo Freight In - Moanaraoi		$ 37,238.16
Cargo Handling Out - Moanaraoi		$ 23,040.25
Cargo Handling In - Moanaraoi		$ 3,366.61
Copra Freight In - Moanaraoi		$ 165,943.64
Copra Handling In - Moanaraoi		$ 22,935.85
Total Sales - Moanaraoi		**$ 476,420.36**
Sales - Matangare		
Pax Fare Out- Matangare		$ 44,641.95
Pax Fare In- Matangare		$ 164,769.10
Cargo Freight Out - Matangare		$ 533,470.28
Cargo Freight In - Matangare		$ 39,357.80
Cargo Handling Out - Matangare		$ 101,552.72
Cargo Handling In - Matangare		$ 27,791.68
Copra Freight In - Matangare		$ 178,298.85
Copra Handling In - Matangare		$ 20,367.79
Charter/Diversion - Matangare		$ 14,250.00
Total Sales - Matangare		**$ 1,124,500.17**
Sales - Momi		
Pax Fare Out - Momi		$ 5,882.40
Pax Fare In - Momi		$ 674.00
Cargo Freight Out - Momi		$ 67,845.56
Cargo Freight In - Momi		$ 8,289.62
Cargo Handling Out - Momi		$ 6,745.81
Cargo Handling In - Momi		$ 858.84
Copra Freight In - Momi		$ 18,715.85
Copra Handling In - Momi		$ 2,569.08
Total Sales - Momi		**$ 111,581.16**
Sales - Other Vessels		
Moaraoi Recovery		$ 70,588.83
Cargo Freight Out - Vessels		$ -

Total Sales - Other Vessels		**$ 70,588.83**
Sales - Engineering		
Vehicle Hire - Engineering		$ 19,979.08
Welding - Engineering		$ 3,365.80
Liferaft Hire - Engineering		$ -
Total Sales - Engineering		**$ 23,344.88**
Sales - Office		
Rental Income - Office		$ 13,510.00
Warehouse Sales - Office		$ 6,809.00
Foods Sales - Office		$ -
Hot and cold drinks Sales - Office		$ -
Catering for important functions, etc - Office		$ -
Total Sales - Office		**$ 20,319.00**
Other Income		
Commission - Other Income		$ -
Interest Income - Other Income		$ 1,024.77
Unidentified Cash - Other Income		$ 18,280.57
Currency Gain/Loss - Other Income		$ -
Returned Salaries - Other Income		$ 1,132.15
Miscellaneous Income - Other Income		$ 8,136.28
Total Sales - Other Income		**$ 28,573.77**
Total Income		**$ 1,855,328.17**
Expenses		
MOANARAOI EXPENSES		
Payroll Expenses - Moanaraoi		
Wages & Salaries - Moanaraoi		$ 126,079.82
KPF Expenses - Moanaraoi		$ 9,073.67
Overtime - Moanaraoi		$ 2,028.78
Allowances - Moanaraoi		$ 22,721.30
Total Payroll Expenses - Moanaraoi		**$ 159,903.57**
Operating Expenses - Moanaraoi		
Telecom Licence - Moanaraoi		$ 87.90
Trading License		$ -
Port Charges - Moanaraoi		$ 17,918.80
Survey Charges - Moanaraoi		$ 1,035.00
Slipping & Dry Docking - Moanaraoi		$ -
Fuel & Oil - Moanaraoi		$ 248,300.65
Victualling - Moanaraoi		$ 31,007.35

Repairs - Moanaraoi		$ 35,531.26
Toll Fare - Moanaraoi		$ 2,270.60
Stevedoring - Moanaraoi		$ 19,400.15
Hire Charges - Moanaraoi		$ 50.00
Low Tide - Moanaraoi		$ 88.00
O/I Agency Fee - Moanaraoi		$ 1,862.65
Cargo Handling Out - Moanaraoi		$ 7,788.87
Cargo Handling In - Moanaraoi		$ 758.10
Copra Handling In - Moanaraoi		$ 16,575.85
Depreciation - Moanaraoi	12	$ 165,000.00
Other Expenses - Moanaraoi		$ 11,934.20
Total Operating Expenses - Moanaraoi		**$ 559,609.38**
Total MOANARAOI EXPENSES		**$ 719,512.95**
MATANGARE EXPENSES		
Payroll Expenses - Matangare		
Wages & Salaries - Matangare		$ 137,518.60
KPF Expenses - Matangare		$ 10,551.82
Overtime - Matangare		$ -
Allowances - Matangare		$ 6,858.39
Total Payroll Expenses - Matangare		**$ 154,928.81**
Operating Expenses - Matangare		
Telecom Licence - Matangare		$ 900.00
Port Charges - Matangare		$ 14,489.48
Survey Charges - Matangare		$ 770.00
Fuel & Oil - Matangare		$ 178,961.25
Victualling - Matangare		$ 21,894.45
Repairs - Matangare		$ 58,848.10
Toll Fare - Matangare		$ 1,870.00
Stevedoring - Matangare		$ 32,538.35
Hire - Matangare		$ 766.00
Depreciation - Matangare	12	$ 165,000.00
Other Expenses - Matangare		$ 5,292.99
Total Operating Expenses - Matangare		**$ 481,330.62**
Total MATANGARE EXPENSES		**$ 636,259.43**
MOMI EXPENSES		
Payroll Expenses - Momi		
Wages & Salaries - Momi		$ 129,194.38
KPF Expenses - Momi		$ 9,205.19
Overtimes - Momi		$ 5,361.00

Allowances - Momi		$ 8,842.39
Total Payroll Expenses - Momi		**$ 152,602.96**
Operating Expenses - Momi		
Port Charges - Momi		$ 3,832.43
Fuel & Oil - Momi		$ 24,181.77
Victualling - Momi		$ 1,686.90
Repairs - Momi		$ 1,484.75
Stevedoring - Momi		$ 5,072.45
Cargo Handling In - Momi		$ 1,805.45
Copra Handling In - Momi		$ 1,116.45
Other Expenses - Momi		$ 1,634.60
Total Operating Expenses - Momi		**$ 40,814.80**
Total MOMI EXPENSES		**$ 193,417.76**
MOARAOI EXPENSES		
Payroll Expenses - Moaraoi		
Wages & Salaries - Moaraoi		$ 50,362.38
KPF Expenses - Moaraoi		$ 3,772.60
Overtime - Moaraoi		$ 1,685.94
Allowances - Moaraoi		$ 16,725.14
Total Payroll Expenses - Moaraoi		**$ 72,546.06**
Operating Expenses - Moaraoi		
Port Charges - Moaraoi		$ 54.10
Fuel & Oil - Moaraoi		$ 8,632.50
Other Expenses - Moaraoi		$ 408.40
Total Operating Expenses - Moaraoi		**$ 9,095.00**
Total MOARAOI EXPENSES		**$ 81,641.06**
OTHER VESSEL EXPENSES		
Payroll Expenses - Vessels		
Wages & Salaries - Vessels		$ 18,391.50
KPF Expenses - Vessels		$ 1,379.31
Overtime - Vessels		$ 1,316.14
Allowance		$ 1,168.60
Total Payroll Expenses - Vessels		**$ 22,255.55**
Operating Expenses - Vessels		
Port Charges - Vessels		$ -
Fuel & Oil - Vessels		$ 584.70
Other Expenses - Vessels		$ 2,066.10
Total Operating Expenses - Vessels		**$ 2,650.80**
Total OTHER VESSEL EXPENSES		**$ 24,906.35**

ENGINEERING EXPENSES		
Payroll Expenses - Engineering		
Wages & Salaries - Engineering		$ 67,820.21
KPF Expenses - Engineering		$ 7,765.62
Overtime - Engineering		$ 3,480.65
Total Payroll Expenses - Engineering		**$ 79,066.48**
Operating Expense - Engineering		
Supplies - Workshop		$ 11,378.95
Toll Fare - Vehicles		$ 1,347.40
Fuel & Oil - Vehicles		$ 15,386.40
Registration - Vehicles		$ 290.00
Repairs - Vehicles		$ 6,442.97
Depreciation - Vehicles	12	$ 22,466.95
Depreciation - Tools/Machinery	12	$ 4,258.75
Other Expenses - Engineering		$ 13,234.45
Total Operating Expense - Engineering		**$ 74,805.87**
Total ENGINEERING EXPENSES		**$ 153,872.35**
WAREHOUSE EXPENSES		
Payroll Expenses - Warehouse		
Wages & Salaries - Warehouse		$ 32,283.38
KPF Expenses - Warehouse		$ 2,451.27
Overtime - Warehouse		$ 5,844.70
Allowances - Warehouse		$ 239.50
Total Payroll Expenses - Warehouse		**$ 40,818.85**
Operating Expenses - Warehouse		
Cargo Claim - Warehouse		$ 1,935.70
Other Expenses - Warehouse		$ 884.25
Total Operating Expenses - Warehouse		$ 2,819.95
Total WAREHOUSE EXPENSES		**$ 43,638.80**
OFFICE EXPENSES		
Payroll Expenses - Office		
Wages & Salaries - Office		$ 166,525.99
KPF Expenses - Office		$ 31,015.18
Overtime - Office		$ 2,428.69
Allowances - Office		$ 9,594.57
Total Payroll Expenses - Office		**$ 209,564.43**
Operating Expenses - Office		
Board Allowances - Office		$ 8,633.85
Board Entertainment - Office		$ 2,305.70

Leave Grant - Office		$ 23,880.00
Local Training - Office		$ 414.00
Local Travel - Office		$ 5,616.20
Overseas Travel - Office		$ -
Housing Subsidy - Office		$ 4,193.11
Insurance - Office		$ 400.00
Cleaning Supplies - Office		$ 220.25
Office Stationery - Office		$ 6,413.25
Computer Supplies & Repairs - Office		$ 4,471.00
Repair & Maint - Office		$ 81,664.27
Operating Supplies - Office		$ 1,492.20
Depreciation - Land and Buildings	12	$ 25,584.83
Depreciation - Furn & Equip	12	$ 3,280.00
Depreciation - ITC Wares	12	$ 12,283.20
BPA Charges - Office		$ 1,191.50
PUB Charges - Office		$ 22,481.50
TSKL Charges - Office		$ 3,204.70
Lawyer's Fee - Office		$ 2,068.84
Consultant's Fee - Office		$ 100.00
Sundry Expenses - Office		$ 1,189.75
Cheque Account Charges - Office		$ 2,617.73
Bank Transfer Charges - Office		$ 585.00
Doubtful Debts - Office		$ -
Postage Charges - Office		$ -
Security Charges - Office		$ -
Loan Administration Fee - Office		$ 2,763.50
Loan Interest - Office		$ 307,063.82
Loan Discharge - Office		$ 26,415.83
Total Operating Expenses - Office		**$ 550,534.03**
Total OFFICE EXPENSES		**$ 760,098.46**
Total Expenses		**$ 2,613,347.16**
Operating Profit/(Loss)		**$ (758,018.99)**
Other Income		
Gain from sale of FA		$ 2,200.00
Gov't Subsidy		$ 250,000.00
Gov't Subsidy		$ 726,479.33
Total Other Income		**$ 978,679.33**

Other Expenses		
Loss from PPI		$ -
Loss from Sale of FA		$ -
Total Other Expenses		$ -
Net Profit/(Loss)		**$ 220,660.34**

Kiribati Shipping Services Limited
Balance Sheet
As at 31 December 2012

PARTICULARS	NOTES	2012
SHAREHOLDERS' FUNDS:		
Paid up Capital	9	$ 500.00
Capital Reserve	10	$ 10,012,110.10
Retained Profit/Loss	11	$(9,738,693.82)
Total Shareholders' Funds		**$ 273,916.28**
ASSETS:		
Current Assets		
Cash at Bank	4	$ 65,593.01
Accounts Receivable	5	$ 575,415.60
Total Current Assets		**$ 641,008.61**
Fixed Assets		
Land and Buildings	12	$ 127,924.16
Less Accumulated Depreciation	12	$ (25,584.83)
Vessels	12	$ 660,000.00
Less Accumulated Depreciation	12	$ (330,000.00)
Vehicles	12	$ 112,334.76
Less Accumulated Depreciation	12	$ (22,466.95)
Tools & Machiney	12	$ 21,293.76
Less Accumulated Depreciation	12	$ (4,258.75)
Furniture and Equipment	12	$ 16,400.00
Less Accumulated Depreciation	12	$ (3,280.00)
ITC Hadware/Software	12	$ 61,416.00
Less Accumulated Depreciation	12	$ (12,283.20)
Total Fixed Assets		**$ 601,494.95**
Total Assets		**$ 1,242,503.56**
LIABILITIES:		
Current Liabilities		
Trade Creditors	6	$ 309,489.34
Payroll Liabilities	7	$ 67,681.52

Historical Payables	8	$ 591,416.42
Total Current Liabilities		**$ 968,587.28**
Long Term Liabilities		
ANZ Loan		$ -
Total Liabilities		**$ 968,587.28**
Net Assets		**$ 273,916.28**

Kiribati Shipping Services Limited
Statement of Cash Flow
For the Years ended 31 December 2012

		2012
Cash flows from Operating Activities:		
Cash receipts from Customers	$	1,301,120.47
Cash paid to Suppliers & Employees	$	(2,306,283.34)
Loan interest Payment	$	(307,063.82)
Payment of Income Tax	$	-
Net cash flow from Operating Activities	$	(1,312,226.69)
Cash flows from Financing Activities:		
Gov't Subsidy-	$	250,000.00
Gov't Subsidy	$	726,479.33
	$	976,479.33
Cash flows from Investing Activities:		
Sale of Fixed Assets	$	2,200.00
	$	2,200.00
Movement in Cash and Cash Equivalents:		
Cash and Cash Equivalents, 1st January	$	-
Cash and Cash Equivalents, 31st December	$	65,593.01
	$	65,593.01
Reconciliation of cash flows from Operating Activities:		
Net Profit (Loss) for the year	$	220,660.34
Add: Depreciations	$	(397,873.74)
Accrued Income Tax Expense	$	-
Decrease/-Increase in Accounts Receivable	$	(575,415.60)
Increase/-Decrease in Accounts Payable	$	(559,597.69)
Adjustment to Retained Earnings	$	-
	$	**(1,312,226.69)**

Kiribati Shipping Services Limited
Notes to the Financial Statement As at 31st December 2012

1. The Company
The Kiribati Services Limited (KSSL) Company was incorporated on the 9th of July 1990 with the primary objective of providing affordable shipping transportation to the General Public in all the Islands of the Republic of Kiribati.

2. Principal Accounting Policies
The financial statements are prepared under the historical cost convention and in accordance with the International Accounting Standards. The following is a summary of the more important policies used by the Company:

(a) Depreciation
Depreciation is calculated to write off the cost of long term assets on straight line basis over their expected useful lives. The rates of depreciation and useful lives are as follows:

Vechicles	100%	5 years
Land and Building	100%	5 years
Vessels	100%	2 years
Tools and Machinery	100%	5 years
Furniture & Equipment	100%	5 years
ITC Hardware/Software	100%	5 years
Intangible	100%	5 years

(b) Foreign Currencies
Assets and liabilities expressed in foreign currencies are converted into Australian dollars at the rate of exchange ruling at the end of the financial year.

3. Sales
The sales is conducted according to KSSL's tariffs on her Fares, Freight and Handling rates

4. Cash at Bank

	2012
Undeposited Funds	$ 20,848.58 ✓
General Cheque Account	$ 44,744.43
Payroll Cheque Account	$ -
Total	**$ 65,593.01**

5. Accounts Receivable

Trade Debtors	$ 554,207.70
Staff Imprest	-$ 50.00
Master Imprest	$ 2,621.30
Staff Advance	-$ 280.00
Staff Debtors	$ 18,834.10
Cashier's Shortage	-$ 71.50
Sundry Debtors	$ 154.00
Total	**$ 575,415.60**

6. Trade Creditors

Trade Creditors	$ 88,575.50
Public Utilities Board	$ 10,500.00
Garnishee - Min. of Finance	$15,224.34
Bounced Cheques to KOIL	$ 129,688.25
KOIL Outstanding Invoices	$ 65,377.25
Audit Fee Payable	$ -
Other Creditors	$ 124.00
Total	**$ 309,489.34**

7. Payroll Liabilities

PAYEE Tax	$ 32,518.39
KPF Payable	$ 18,235.76
House Rent	$ 194.36
Council Surcharge	-$ 4,772.89
Staff Canteen	$ 5.00
House Loan	$ -
KPF Loan	-$ 125.00
BOK Loan	$ 30.00
BOK Salaries	-$ 30.00
Current Overtime Payable	$ 21,625.90
Total	**$ 67,681.52**

8. Historical Payables

Historical Overtime Payable	$ 11,282.01
Historical PAYE Tax Payable	$ 240,248.66
Historical KPF Payable	$ 340,020.45
Historical Unclaimed Salaries	$ -
Historical Payables - Others	-$ 134.70

Total	$ 591,416.42

9. Non Current Liabilities

Loan - ANZ Bank	$ -

9. Share Capital

Issued and fully paid	
Ordinary shares of $1.00 each	$ 500.00

10. Capital Reserve

Government Grant	$ 6,322,697.43
Capital reserve	$ 3,689,412.67
Total	**$10,012,110.10**

11. Retained Profit / loss

Balance as at 1st January	-$ 9,959,354.16
Profit/loss for the year	$ 220,660.34
Balance as at 31st December	-$ 9,738,693.82

12. Long Term Assets (Assets purchased by KSSL)

	Land & Building at cost	Vessels at cost	Vehicles at cost	Tools & Machinery at Cost	Furniture & Equipment	ITC Hardware / Software	Total
Cost of Valuation							
Balance at 01/01/12	$127,924.16	$660,000.00	$112,334.76	$21,293.76	$ -	$ -	$921,552.68
Additions	$ -	$ -	$ -	$ -	$16,400.00	$61,416.00	$77,816.00
Balance 31/12/12	$127,924.16	$660,000.00	$112,334.76	$21,293.76	$16,400.00	$61,416.00	$999,368.68
Accu. Depreciation							
Balance 01/01/12	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Charge 2012	$25,584.83	$330,000.00	$22,466.95	$ 4,258.75	$3,280.00	$12,283.20	$397,873.74
Balance 31/12/12	$25,584.83	$330,000.00	$22,466.95	$ 4,258.75	$3,280.00	$12,283.20	$397,873.74
Balance at 01/01/13	$102,339.33	$330,000.00	$89,867.81	$17,035.01	$13,120.00	$49,132.80	$601,494.94