REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

KIRIBATI SUPPLIES COMPANY LIMITED FOR THE YEAR ENDED 31st DECEMBER 2007.

KIRIBATI NATIONAL AUDIT OFFICE

August. 2009

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE KIRIBATI SUPPLIES COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2007

EXECUTIVE SUMMARY

Findings:

- The company made an operating and net profit in 2007 and well as in the previous full year reported (paragraph 2.1)
- The company had a good financial health for 2007 and in the previous years (paragraph 2.2)
- Sales dockets were not available during the audit (paragraph 3.1)
- Stock sheets for both Tarawa and Kiritimati were not presented during the audit (paragraph 3.2)
- Original payroll sheets were misplaced (paragraph 3.3)
- Staff loan (paragraph 3.4)
- Trade Debtors (paragraph 3.5)
- Significant variances between the Vendor balance and Financial Statement (paragraph 3.6)
- Still there is no Fixed Assets Register been maintained (paragraph 3.7)

Recommendations:

- 2 - Management should continue with its endeavors to maintain profitability and a positive working capital.
- Management should ensure that all documentation is maintained, kept in a safe place for future references and be readily on hand upon request.
    - 3.1 Sales
    - 3.2 Stock
    - 3.3 Payroll
    - 3.5 Staff Loan
    - 3.6 Trade Debtors
- Management is required to make adjustments and improve the control over creditors and to make sure the creditors are reconciled on a monthly basis
- Management should establish an asset register as a priority.
- Management should review any other mentioned in my findings and make adjustments where necessary.

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE KIRIBATI SUPPLIES COMPANY LIMITED FOR THE YEAR ENDED 31 DECEMBER 2007

As required by Part VI of the Public Finance (Control and Audit) Ordinance 1976, I have completed the audit of the Kiribati Supplies Company Limited for the year ended 31 December 2007 in accordance with the relevant statutory provisions and normally accepted Auditing Standards.

1 General

Kiribati Supplies Company Limited was incorporated on 27 May 1990 with a share capital of 500 ordinary shares of $1each, wholly subscribed by the Government of Kiribati to takeover the operations of the Government Supply Fund. The Company commenced on 1 June 1990.

2 Finance

2.1 Financial Performance

Performance of the company for the past several financial years follows:

	Dec 2007	**Dec 06 (6 mths)**[1]	**May 06**	**2005**
Sales	3,701,738.35	2,604,447.43	4,808,009.05	4,187,859.03
Less Cost of Sales	2,458,751.58	2,526,008.76	3,583,808.81	3,481,573.79
Stock Obsolesence w/b		554,346.69		
Gross Profit	1,242,986.77		1,224,200.24	706,285.24
Plus: Other Income	36,052.85	39,745.03	80,453.78	27,183.40
Gross Profit	1,279,039.62	672,530.39	1,304,654.02	733,468.64
Total Operating Expense	918,953.93	613,866.29	1,273,192.24	1,191,311.87
Operating Profit/(Loss)	360,080.69	58,664.10	31,461.78	**(457,843.23)**
Valuation reserve released	2933.17	4,170.83	7150	7150
Net Profit/(Loss)	386,941.66	62,835.10	38,611.78	**(450,693.23)**

The above table indicates that KSCL had a net profit for the years May 2006 and Dec 2007 and that this profit has increased significantly between periods. Although gross sales has reduced from 2006 to 2007 this has be offset by a reduction in the cost of sales and total operating expenses. These results are very favorable particularly given significant net loss sustained by KSCL in 2005.

[1] 6 month figures are not comparable

2.2 Financial Position

Current ratio:

2007	2006 (6 mths)	2005	2004	2003
3,400,351.46	2,944,773.99	3,729,125.25	4,115,432.86	3,366,123.45
825,539.35	655,411.51	1,992,053.59	1,955,825.93	1,161,928.47
4.12	4.49	1.87	2.10	2.90

As shown in table above, KSCL has a healthy and increasing current ratio between the 2006 and 2007 years. This indicates that the company has the ability to pay off it short term liabilities when they fall due.

3 Audit Findings

3.1 Sales

Audit could not verify the sales figures reflected in the accounts because of the absence of supporting documentation.

Recommendation

KSCL should maintain adequate documentation.

3.2 Stock

The audit noted that the stock sheets were not available during the auditing as was the case in the previous years audit[2]. Therefore I could not verify the correctness of stock balances as shown in the financial statement. Consideration should also be given to computerizing its inventory/stock system which will give rise to efficiencies.

Recommendation

That stock sheets should be kept properly and updated regularly.

3.3 Payroll (Salaries).

Pay records for the moths of March up to Sept, Nov & December 2007 were not available during the audit. Upon review of selected pay periods we noted:

- a number of anomalies that were not material, and
- that some staff did not sign their salaries.

Recommendation

KSCL should maintain adequate pay records and ensure that all staff sign the pay record sheet.

3.4 Staff loan

Staff Loan account balance could not be verified due to the following weaknesses:

[2] My office was advised by KSCL that the stock sheets had been found after the audit was completed and as such were not reviewed

- Supporting document were not available
- Listing was not available
- Subsidiary cards were not available
- Balance as per General Ledger was not agree with the Draft account

Subsidiary ledger cards and other relevant document are very important for verification purposes and they should always be available for auditing.

Recommendation
Management should ensure that all staff loan documents are readily available during the next audit.

Management response
Will write off staff loan in 2008

3.5 Trade Debtors

The audit noted that:

- there was no opening balances included in the subsidiary ledger cards, and
- some invoices were not available upon request

Therefore we could not verify the correctness of the balances disclosed in the account.

Recommendation
That KSCL should maintain adequate documentation, and rectify the opening balances in the subsidiary ledger cards.

3.6 Trade Creditors:

Trade creditors total balance appeared in the Print-out Vendor Balance Detail was $1,079,617.65 whereas appeared on the Account $813,271.52, a variance of $266,346.13. Amongst other things this indicates lack of reconciliation between the control and subsidiary accounts.

Recommendation
Reconciliation of Trade Creditors Control account and Subsidiary accounts on a regular basis is strongly recommended. Management is required to review the Trade Creditors Control and Subsidiary accounts balances and make adjustments where necessary.

3.7 Fixed Assets

No asset register was maintained therefore the audit were unable to verify the balances disclosed in the draft account. Without such register, the company would not be able to properly account for all it fixed assets and depreciation charges

Compounding this is the fact that a register has not been in existence since 1999, and action should be taken to rectify this as a priority.

Recommendation
Management should establish an asset register as a priority.

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AUDIT OPINION

Scope

I have audited the accounts of the Kiribati Supplies Company Limited for the years ended 31st December 2007.

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 1976 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 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.

Qualification

As noted in paragraphs 3.1 to 3.7 the documents necessary for the performance of the audit were:

- not made available for review
- were incorrect or incomplete, or
- not reconciled.

As the remaining accounting records were not adequate to permit the application of necessary auditing procedures and variances are material, I am unable to obtain all the information and explanations we require in order to form an opinion.

Audit Opinion

In my opinion, because of the existence of the limitation of scope of my work as described in the qualification paragraph, I am unable to and do not express an opinion as to whether financial statements presented fairly in accordance with applicable Accounting Standard, the Company Ordinance 1976 and the mandatory professional reporting requirements of the financial position of Kiribati Supplies Company Limited as at 31st December 2007 and the results of its operations and its cash flows for the year then ended.

Raimon Taake
Auditor General

18th August 2009