REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

AUDIT FOR AN IMPACT FOR THE PUBLIC

KNAO

Public Utilities Board
For The Year Ended 31st December 2012

Kiribati National Audit Office
December 2014

KIRIBATI NATIONAL AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati

Tel: (686)21118
Fax: (686)21250
Email: infor@knao.gov.ki

Audit for an impact for the public

Independent Auditor's Report

To the readers of Public Utilities Board financial statements For the year ending 31 December 2012

Report on the Financial Statements

The Auditor-General, Mrs Matereta B Raiman, is the auditor of Public Utilitics Board (PUB).

I have audited the accompanying financial statements of Public Utilities Board. The financial statements comprise:

- the Statements of Financial Position as at 31 December, 2012,
- Statement of Financial Performance,
- a Cash Flow statement and
- a summary of significant accounting policies and other explanatory information.

The audit covered the company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) Ordinance 1976 (amendments 1981) and Public Utilities Ordinance 1977 that apply to the financial statements of Public Utilities Board for the year ended 31 December 2012.

Managements and Board Directors Responsibility for the Financial Statements

PUB's managements and Board Directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice, and for such internal controls as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Public Finance (Control and Audit) Ordinance 1976 (amendments 1981) and Public Utilities Ordinance 1977.

Auditor's Responsibility

In accordance with Part VII of the Public Finance (Control and Audit) 1976 (amendments 1981), auditors are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you.

Basis for Adverse Opinion

I am unable to verify the completeness and accuracy of the assets, stocks, trade debtors, staff debts balances, trade and sundry creditors' balances and consequently the financial position of PUB as at 31st December 2012. Furthermore, the payments and receipts balances and consequently the net loss of PUB could not be confirmed as correct due to the followings:

Fixed Assets

Stocktakes Assets

- The value of assets disclosed in notes 2 of the financial statements show $798,152 total addition costs that could not be substantiated.
- There was no evidence to indicate that periodic stock takes were conducted in order to ascertain the existence, conditions and value of assets that were owned and were in the custody of PUB as at 31 December 2012. improvement

Stocks

- The General Ledger records and the trial balance did not match and the variances noted was $338,414 for Stock on hand: Generation and $5,651 for Stocks on hand: Electrical.
- Total $76,522 value of Daikai overhaul stocks were not accounted for in the stocks balances.

Stock Card

→ Response support our comments.

Staff Debts

- $86,881 of staff debts had been written off the book without adequate approval provided.

- Inconsistency of PUB's records balances as per the Staff Debtors listing, the General Ledger and the Trial balance as evidenced in the table below:

Staff Debtors	**General Ledger bal ($)**	**Trial Balance ($)**	**Listing balance ($)**
Salary Advance	$5,649.22	$5,649.22	-$13,118.19
Personal Advance	$54,205.59	$59,047.87	$38,531.89
Utility	$52,437.78	-$51,143	$46,441.65
Imprests	$29'974.66	$29,974.66	$19,273.74

lai iaan te Tua?

Trade Debtors

- The General Ledger records and the trial balance for Electricity debtors balance did not match and the variances of $173,455 were noted.

- The provision for doubtful debts over Water Debtors outstanding balance of $4,331,029 was not provided for.

Creditors: Negative balances

- Significant negative balances were reported as Long Term Loan: Current Portion, ADB, $65,958 and $48,203 for Sundry Creditors.

- No listing for Trade Creditors provided.

Adjustment made in 2015

refer to 2015 a/c

Payments and Receipts

- $15,200 audit fees payable were not accounted for in PUB's 2012 Statement of Financial Performances.

- Doubtful debts expense over Water Debtors was not reported during the year

- Outstanding deposits since 2006 including 2012 were accumulated to $104,368 with less or no probability of recoverability.

- $68,909 related to accumulated bank errors that had not been resolved with ANZ bank.

Adverse Opinion

Because of the **significant effects of the matters** described in the Basis for Adverse Opinion paragraph, in my opinion, the financial statements of the Public Utilities Board, **DO NOT** give a true and fair view, in accordance with Generally Accepted Accounting practice in Kiribati. An adverse opinion was issued on the financial statements.

Matereta B Raiman
Auditor General
Kiribati National Audit Office

10/12/2014

Signed Original Rec'd 29/04/14

PUBLIC UTILITIES BOARD

FINANCIAL STATEMENTS - REVISED

FOR THE YEAR ENDED 31 DECEMBER, 2012

PUBLIC UTILITIES BOARD
FINANCIAL POSITION AS AT 31 DECEMBER, 2012

	NOTES	Revised 2012	2012	Revised 2011	2011
CURRENT ASSETS					
Trade Debtors***	10	9,101,674	9,545,204	7,698,697	7,698,697
Sundry Debtors		9,800	9,800	9,800	9,800
Staff Debts		129,458	129,458	240,377	240,377
Provision for Bad		-903,185	-903,185	-961,030	-961,030
Cash at Bank	5	9,367	9,367	-747,098	-747,098
Project Account					
IBD		90,163	90,163	88,618	88,618
Stock		1,232,470	1,232,470	976,223	976,223
Provision for Obsolete Stock					
Prepayment		64,850	56,955		
Total Current Assets		**9,734,598**	**10,170,232**	**7,305,587**	**7,305,587**
CURRENT LIABILITIES					
Current Portion of L/T Loan - ADB	3	-65,958	-65,958	-35,894	-35,894
Trade Creditors**	9	6,701,154	6,701,154	4,314,380	4,314,380
Sundry Creditors		-48,203	-48,203	-61,217	-61,217
Total Current Liabilities		**6,586,993**	**6,586,993**	**4,217,269**	**4,217,269**
WORKING CAPITAL		**3,147,604**	**3,583,239**	**3,088,318**	**3,088,318**
NON-CURRENT ASSETS					
Buildings		1,252,861	1,252,861	1,234,340	1,234,340
Plants & Machineries		43,019,929	43,019,929	42,276,592	42,276,592
Furniture, Fittings & Equipment		483,399	483,399	462,085	462,085
Motor Vehicles		1,376,264	1,376,264	1,361,284	1,361,284
Accumulated Depreciation		-22,476,859	-22,476,859	-21,235,409	-21,235,409
Total Non-Current Assets	2	**23,655,594**	**23,655,594**	**24,098,892**	**24,098,892**
LONG-TERM LIABILITIES					
ADB Loan	3	4,034,420	4,034,420	3,997,485	3,997,485
ANZ Bank Loan	3	-	-	1,420,775	1,420,775
Total Long-Term Liabilities		**4,034,420**	**4,034,420**	**5,418,260**	**5,418,260**
NET WORTH		**22,768,779**	**23,204,413**	**21,768,950**	**21,768,950**
SHAREHOLDER'S EQUITY					
Capital Reserve	4	24,945,587	24,945,587	25,866,716	25,866,716
Equity Injection*****	12	3,169,520		860,000	
Accumulated Profits/(Losses)	6	-5,346,328	-1,741,174	-4,957,766	-4,097,766
TOTAL SHAREHOLDER'S EQUITY		**22,768,779**	**23,204,413**	**21,768,950**	**21,768,950**

Confirmed:

Chairman

Chief Executive Officer

PUBLIC UTILITIES BOARD

FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER, 2012

INCOME	NOTES	Revised 2012	2012	Revised 2011	2011
Electricity Sales		9,134,812.59	9,134,813	9,142,932	9,142,932
Water Sales		810,665.20	810,665	720,087	720,087
Government Subsidy*	7	480,000.00	3,225,154	480,000	1,340,000
Other Income		118,241.58	118,242	121,459	121,459
Total Income		**10,543,719.37**	**13,288,874**	**10,464,478**	**11,324,478**
EXPENDITURE					
Fuel & Lubricant		7,931,352.38	7,931,352	7,851,958	7,851,958
Fuel - Motor Vehicles		57,362.11	57,362	76,348	76,348
New Connections & Installations		31,713.32	31,713	16,021	16,021
Postage, Printing & Stationeries		23,249.30	23,249	26,723	26,723
Operating & Other Supplies		29,783.82	29,784	60,578	60,578
KPF Contributions		111,820.42	111,820	91,852	91,852
Leave Grants & Passages		61,817.00	61,817	70,641	70,641
Salaries, Overtime & Allowances		1,647,275.14	1,647,275	1,660,822	1,660,822
Repairs & Maintenance		165,563.88	165,564	82,243	82,243
Depreciation		1,241,449.85	1,241,450	1,242,288	1,242,288
Overseas Travel & Training		35,866.11	35,866	4,385	4,385
Travelling & Transport		33,080.75	33,081	38,468	38,468
Telecom Charges		48,908.69	48,909	46,035	46,035
Chlorination		35,609.99	35,610	63,531	63,531
Insurance & Subscriptions		6,121.67	6,122	4,326	4,326
Advertising		12,486.52	12,487	10,732	10,732
Board Expenses		26,397.70	26,398	15,207	15,207
Audit Fees		-	-	-	-
Land Lease & Compensation		6,103.09	6,103	9,095	9,095
Bank Charges		108,443.07	108,443	197,133	197,133
Staff Subsidised Rent		30,359.70	30,360	29,503	29,503
Interest on L/T Loan		131,289.93	131,290	228,000	228,000
Other Expenses		41,351.57	41,352	6,263	6,263
Redundancy					
Total Expenditure		**11,817,406.01**	**11,817,406**	**11,832,152**	**11,832,152**
OPERATING PROFIT/(LOSS)		-1,273,687	1,471,468	-1,367,674	-507,674
ABNORMAL ITEMS					
Prior Period Items (PPI)	8	(36,004.92)	(36,005)	17,673	17,673
Amortisation - Aid Released		921,128.86	921,129	924,268	924,268
NET PROFIT/(LOSS)		**(388,563)**	**2,356,591**	**-425,733**	**434,267**

Confirmed:

Chairman

Chief Executive Officer

PUBLIC UTILITIES BOARD
CASH FLOW STATEMENT AT 31 DECEMBER, 2012

	Notes	Revised 2012	2012	Revised 2011	2011
Cash Flows from Operating Activities					
Cash Receipts from Customers & Other Income		8,287,951	8,287,951	9,936,907	9,936,907
Cash Paid to Suppliers, Employees etc.		-8,881,612	-8,881,612	-10,354,652	-10,354,652
Net Cash Flows from Operating Activites	(A)	-593,661	-593,661	-417,745	-417,745
Cash Flows from Financing Activities					
Government Subsidy		480,000	1,729,960	480,000	590,000
Equity Injection		1,249,960		110,000	
BOK Loan Proceeds					
Loan Repayment & Interest		-50,000	-50,000	704,000	704,000
Net Cash Flows from Financing Activites		**1,679,960**	**1,679,960**	**1,294,000**	**1,294,000**
Cash Flows from Investing Activities					
Cash Proceeds from Sale of Assets		3,755	3,755	0	0
Interest on IBD		1,545	1,545	0	0
Purchase of Assets		-333,589	-333,589	-93,092	-93,092
Net Cash Flows from Investing Activites		**-328,289**	**-328,289**	**-93,092**	**-93,092**
Net Increase / Decrease for the Period		758,010	758,010	20,908	20,908
Add Cash Balances & Cash equivalent at the Beginning		-658,480	-658,480	-679,388	-679,388
Cash Balance & Cash equivalent at the End of the Period		**99,530**	**99,530**	**-658,480**	**-658,480**

	Notes	Revised 2012	2012	Revised 2011	2011
Cash & Cash Equivalents					
Cash at Bank	5	9,367	9,367	-747,098	-747,098
Power Project****	11	0	0	0	0
Interest Bearing Deposit (IBD) - BOK		90,163	90,163	88,618	88,618
Total		**99,530**	**99,530**	**-658,480**	**-658,480**

(A) Reconciliation of Operating Profit / (Loss) to Net Cash Provided (Used) by Operating Activities

	Revised 2012	2012	Revised 2011	2011
Operating Profit (Loss) for Year	**(1,273,687)**	**1,471,468**	**-1,367.674**	**-507.674**
Depreciation	1,241,450	1,241,450	-1,242,288	-1,242,288
Interest on ADB Loan	6,871	6,871	-16,688	-16,688
Government Subsidy	-1,729,960	-1,729,960	-480,000	-590,000
Equity Injection	2,309,520		-110,000	
Prior Period Items	-36,005	-36,005	-28,359	-28,359
Increase / Decrease in Trade Debtors	-1,402,977	-1,846,506	1,289,427	1,289,427
Increase /Decrease in Provision for Doubtful Debts	-57,845	-57,845		
Increase / Decrease in IBD	-1,545	-1,545		
Increase / Decrease in Staff Debts	110,918	110,918	-44,669	-44,669
Increase / Decrease in Stock	-256,248	-256,248	-166,148	-166,148
Increase / Decrease in Trade Creditors	2,386,774	2,386,774	931,478	931,478
Increase / Decrease in Sundry Creditors	13,014	13,014	-42,824	-42,824
Increase / Decrease in Prepayment	-64,850	-56,955		
Increase / Decrease in ANZ Bank Loan	-1,420,775	-1,420,775		
Increase / Decrease in Fixed Assets	-798.152	-798.152		
Increase / Decrease in Equity Injection	0	0	860,000	
ANZ Loan Repayment	50,000	50,000		
Proceeds from Sale of Motor Vehicle	-3,755	-3,755		
Purchase of Assets	333,589	333,589		
Cash Flows from Operating Activites	**-593,661**	**-593,661**	**-417,745**	**-417,745**

Confirmed: ______________ Chairman ______________ Chief Executive Officer

PUBLIC UTILITIES BOARD

Notes to and Forming Part of the Accounts

Year Ended 31 December, 2009

(1) Statement of Accounting Policies

The accounts of the Board have been drawn up in accordance with generally accepted accounting principles and International Accounting Standards and the requirements of the law of the Republic of Kiribati. They have been prepared under the historical cost convention and the accrual basis of accounting has been used.

The accounting policies have been consistently applied unless otherwise stated. Set out below is a summary of the significant accounting policies adopted by the Board in the preparation of the accounts

(a) Depreciation of Fixed Assets

Fixed assets, including donated assets, are depreciated over their estimated useful lives using the straight line method.

(b) Stock

Stock is valued at the lower of cost and ne: relisable value and includes expenditure incurred in acquiring the stock and bringing it to the existing condition and location.

(c) Grants and Subsidies

Grants received for capital assets are recorded in the balance sheet as deferred income and amortised as income for subsequent periods at a rate of depreciation applied for the capital assets acquired under a grant

Subsidies received specifically for meeting operating costs are recorded in the income statement as operating revenue for the period

(d) Foreign Currency

A foreign currency transaction is recorded at its local currency (Australian dollar) equivalent at a rate in use when the transaction occurs. Gains and losses arising from foreign currency transactions are treated as gains or losses for the period when the transactions occur

(e) Long Term Debt

The current portion of long term debt is recorded as a current liability according to the repayment terms of the relevant loan agreement

(2) Schedule of Fixed Assets - 2012

		PLANTS & MACHINERIES					FURNITURE FITTINGS &	MOTOR	GRAND
		WATER	SEWERAGE	ELECTRICAL	TOTAL	BUILDINGS	EQUIPMENT	VEHICLES	TOTAL
Cost	As at 1/01/12	6,014,319	2,171,920	24,015,710	32,201,948	715,840	462,086	1,361,284	34,741,158
Valuation		1,308,722	6,376,000	2,389,922	10,074,644	518,500			10,593,144
Total		**7,323,041**	**8,547,920**	**26,405,632**	**42,276,592**	**1,234,340**	**462,086**	**1,361,284**	**45,334,302**
Cost	Additions	-	-	743,336	743,336	18,521	21,314	14,980	798,152
	As at 31/12/12	**7,323,041**	**8,547,920**	**27,148,968**	**43,019,929**	**1,252,861**	**483,400**	**1,376,264**	**46,132,454**
Depreciation	As at 1/01/12	3,015,982	5,193,332	10,677,350	18,886,664	747,619	433,753	1,167,373	21,235,409
	Annual Charge	317,232	205,061	571,788	1,094,082	19,544	19,410	108,414	1,241,450
	As at 31/12/12	**3,333,215**	**5,398,393**	**11,249,138**	**19,980,746**	**767,163**	**453,163**	**1,275,787**	**22,476,859**
Net Book Value	As at 1/01/12	4,307,058	3,354,586	15,728,282	23,389,926	486,720	28,332	193,911	24,098,889
	As at 31/12/12	**3,989,826**	**3,149,527**	**15,899,830**	**23,039,182**	**485,698**	**30,237**	**100,477**	**23,655,595**

(3) Asian Development Bank (ADB) & ANZ Bank (Kiribati) Limited Loans

(a) Loan No. 786 - Wartsila Generator
Principal advanced US700,000 @ 0.65 AUD $1,076,923.00
15 years @ interest 7.65% semi-annually wef June 1990

	Current Liability	Long Term Liability		Total
		Principal	Interest	
Balance 1/01/12	-35,898	886,919	874,653	1,761,572
Adjustment	0	0	0	0
Balance 31/12/12	-35,898	886,919	874,653	1,761,572

(b) Loan No. 922 - Power Distribution Project
Principal advanced SDR 666,970 @ 0.5546 AUD $1,202,547.00
20 years @ Interest 6.53% semi-annually wef Sept 1992

	Current Liability	Long Term Liability		Total
		Principal	Interest	
Balance 1/01/12	3	1,172,482	1,063,429	2,235,911
Adjustment	30,064	30,064	6,871	36,935
Balance 31/12/12	-30,061	1,202,546	1,070,300	2,272,846

Total ADB Loan - AUD $2,279,470.00

	Current Liability	Long Term Liability		Total
		Principal	Interest	
Balance 1/01/12	-35,894	2,059,401	1,938,083	3,997,484
Adjustment	-30,064	30,063.68	6,871.07	36,934.74
Balance 31/12/12	-65,958	2,089,465	1,944,954	4,034,419

(c) ANZ Bank (Kiribati) Limited Loan Account No. 791273
Principal AUD $2,339,000 @ Interest of 11.75% wef July, 2009

	Principal	Interest & Others	Repayment Principal	Total
Balance 1/01/12	1,913,463	211,312		2,124,775
Repayment		-211,312	-492,688	-704,000
Balance 31/12/12	1,913,463	0	-492,688	1,420,775

	Principal	Interest & Others	Repayment Principal	Total
Balance 1/01/12	1,913,463	0	-492,688	1,420,775
Repayment		124,419	-1,545,194	-1,420,775
Balance 31/12/12	1,913,463	124,419	-2,037,882	0

(4) Capital Reserve	Revised 2012	2012	Revised 2011	2011
Grant Reserve				
Balance 1/01/11	22,372,670	22,372,670	23,296,938	23,296,938
Amortised as Income	-921,129	-921,129	-924,268	-924,268
Balance 31/12/11	**21,451,541**	**21,451,541**	**22,372,670**	**22,372,670**
Revaluation Reserve				
Balance 1/01/11	3,494,046	3,494,046	3,494,046	3,494,046
Balance 31/12/11	3,494,046	3,494,046	3,494,046	3,494,046
Total	**24,945,587**	**24,945,587**	**25,866,716**	**25,866,716**

(5) Cash at Bank				
Account No. 298142	9,367	9,367	-747,098	-747,098
IBD	90,163	90,163	88,618	88,618
Total	**99,530**	**99,530**	**-658,480**	**-658,480**

(6) Accumulated Loss				
Balance 1/01/11	-4,957,766	-4,097,766	-4,532,033	-4,532,033
Net Profit/Loss (-) for the year	-388,563	2,356,591	-425,733	434,267
Balance 31/12/11	**-5,346,329**	**-1,741,174**	**-4,957,766**	**-4,097,766**

Note: Treatment of Subsidy to Equity Injection, causes changes to Accumulated Loss in 2011 and 2012

(7) Government Subsidy				
Sewerage Operations	480,000	480,000	480,000	480,000
Power Supply	0	589,960	0	500,000
Other Grants	0	2,155,194	0	360,000
Total	**480,000**	**3,225,154**	**480,000**	**1,340,000**

Note: Government Subsidy for Power Supply and Other Grants partly cleared some Ministries and SOE outstanding Electricity and Water Debts while remaining amount being treated as Equity Injection per letter from SMFED, Ref: DF 12/52 dated 17/07/2013 and 01/08/2013.

(8) Prior Period Items/Adjustments				
Other Expenses	-36,005	-36,005	17,673	17,673

(9) Trade Creditors

** Subject to change upon receving confirmation from SOEMAU, MFED - to offset PUB's outstanding debt of $1.4 million with KOIL

Notes to and Forming Part of the Accounts (Con'd)

(10) Trade Debtors

***Trade Debtors includes an extreme amount of Uncollectible Water Debotrs of $4,331,029 catergorised under Domestic. Also uncollectible is Electricity Debtors of $53,033, thus a Total Uncollectible and Bad Debts of $4,384,061 is expected in the Next Accounting Period, 2013.

(11) WatSan Project Fund

****Received NZ Aid-WatSan Project Funds of $153,000 on 19 December 2012. Closing Balance as at 31/12/2012 is $35,657.37. This Closing Balance is not shown in the Financial Statements to await Completion of Financial Acquittal and Progress Report at end of the Project in 2013.

(12) Equity Injection

*****Funds received from Government during the year, previously reported as Subsidy have now been adjusted to clear Ministries and SOE's Electricity and Water Outstanding Bills. The remaining balance been treated as Equity Injection as per letter received from Secretary, MFED and copied also to KNAO dated 17/07/2013 and 01/08/2013, MFED Ref: DF12/52.