Paper No. 27/15
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REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

KNAO
AUDIT FOR AN IMPACT FOR THE PUBLIC

Public Utilities Board
For The Year Ended 31st December 2013

Kiribati National Audit Office
April 2015

KIRIBATI NATIONAL AUDIT OFFICE

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Audit for an impact for the public

INDEPENDENT AUDIT REPORT

To the readers of
Public Utilities Board
For the year ended 31st December 2013

Report on the Financial Statements

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

I have audited the accompanying financial statements of Public Utilities Board for the year ended 31st December 2013. The financial statements comprise:

- the balance sheet as at 31st December 2013, and
- the profit and loss statement
- the Statement of Cash Flow and a summary of significant accounting policies and other explanatory information.

Management's and Board's Responsibility for the Financial Statements

Management and the Governing Board 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 General's Responsibility

It is my responsibility to form an independent opinion, based on my audit, on these financial statements prepared in Accrual basis and to report in accordance with the Constitution and Part VII of the Public Finance (Control and Audit) 1976.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI) and Generally Acceptable Auditing Standards as applicable in Kiribati to obtain reasonable assurance whether the financial statements are free of material misstatement. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I would like to draw the attention to the matter described below:

In 2009 financial year, PUB reported staff redundancy costs balance of $19,578. However, the trend of employment since then had been increasing and as Kiribati National Audit Office noted, the level of outstanding trade debtors kept increasing while total sales earned for the period decreasing. Considering PUB's output efficiency, there was unacceptable trend noted in as PUB's establishment register increases, PUB's revenue collection trend falls while outstanding debtors kept accumulating. This was not promising to PUB's sustainability in the long run.

....

Mrs Matereta B Raiman

Auditor General

Kiribati National Audit Office

Bairiki Tarawa

21/4/2014

PUBLIC UTILITIES BOARD

FINANCIAL STATEMENTS – 2013

SUBMITTED TO KIRIBATI NATIONAL AUDIT OFFICE – 26 MARCH 2014

PUBLIC UTILITIES BOARD

FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER, 2013

INCOME	NOTES	2013	Revised 2012	2012
Electricity Sales		9,563,756	9,134,313	9,134,813
Water Sales		339,069	810,665	810,665
Government Subsidy*	7	480,000	480,000	3,225,154
Other Income		139,373	113,242	118,142
Total Income		10,522,698	10,543,719	13,288,874
EXPENDITURE				
Fuel & Lubricant		8,144,692	7,931,352	7,931,352
Fuel - Motor Vehicles		58,527	57,362	57,362
New Connections & Installations		36,097	31,713	31,713
Postage, Printing & Stationeries		27,850	23,249	23,249
Operating & Other Supplies		18,529	29,784	29,784
KPF Contributions		80,124	111,820	111,820
Leave Grants & Passages		97,563	61,817	61,817
Salaries, Overtime & Allowances		1,650,321	1,647,275	1,647,275
Repairs & Maintenance		192,657	165,564	165,564
Depreciation		1,325,900	1,241,450	1,241,450
Overseas Travel & Training		33,302	35,866	35,866
Travelling & Transport		27,481	33,081	33,081
Telecom Charges		45,288	48,909	48,909
Chlorination		52,978	35,610	35,610
Insurance & Subscriptions		7,575	6,122	6,122
Advertising		19,784	12,487	12,487
Board Expenses		21,233	26,398	26,398
Audit Fees		-	-	-
Land Lease & Compensation		3,097	6,103	6,103
Bank Charges		49,086	108,443	108,443
Staff Subsidised Rent		28,731	30,360	30,360
Interest on L/T Loan		-	131,290	131,290
Other Expenses		35,168	41,352	41,352
Redundancy				
Total Expenditure		**11,955,983**	**11,817,406**	**11,817,406**
OPERATING PROFIT/(LOSS)		**(1,433,285)**	**(1,273,687)**	**1,471,468**
ABNORMAL ITEMS				
Bad/Doubtful Debts*	11	(4,384,061)		
Prior Period Items (PPI)	8	(138,548)	(36,005)	(36,005)
Amortisation-Aid Reserve Released as Income		958,018	921,129	921,129
NET PROFIT/(LOSS)		**(4,997,876)**	**(388,563)**	**2,356,591**

Confirmed: Chairman Chief Executive Officer

PUBLIC UTILITIES BOARD

FINANCIAL POSITION AS AT 31 DECEMBER, 2013

	NOTES	2013	Revised 2012	2012
CURRENT ASSETS				
Trade Debtors	10	5,681,505	9,101,674	9,545,201
Sundry Debtors and Prepayments		41,015	9,800	9,800
Staff Debts		180,480	129,458	129,458
Provision for Bad		(903,185)	-903,185	-903,185
Cash at Bank	5	129,936	9,367	9,367
IBD	5		90,163	90,163
Stock		1,182,639	1,232,470	1,232,470
Provision for Obsolete Stock				
Prepayment		-	64,850	56,955
Total Current Assets		**6,312,439**	**9,734,598**	**10,170,232**
CURRENT LIABILITIES				
Current Portion of L/T Loan - ADB	3	(65,958)	-65,958	-65,958
Trade Creditors*	9	7,630,720	6,701,154	6,701,154
Sundry Creditors		39,639	-48,203	-48,203
Total Current Liabilities		**7,604,401**	**6,586,993**	**6,586,993**
WORKING CAPITAL		**(1,291,962)**	**3,147,604**	**3,583,239**
NON-CURRENT ASSETS				
Buildings		1,252,861	1,252,861	1,252,861
Plants & Machineries		43,269,161	43,019,929	43,019,929
Furniture, Fittings & Equipment		546,739	483,399	483,399
Motor Vehicles		1,653,230	1,376,264	1,376,264
Accumulated Depreciation		(23,802,759)	-22,476,859	-22,476,859
Total Non-Current Assets	2	**22,919,233**	**23,655,594**	**23,655,594**
LONG-TERM LIABILITIES				
ADB Loan	3	4,034,420	4,034,420	4,034,420
ANZ Bank Loan	3	-	-	-
Total Long-Term Liabilities		**4,034,420**	**4,034,420**	**4,034,420**
NET WORTH		**17,592,851**	**22,768,779**	**23,204,413**
SHAREHOLDER'S EQUITY				
Capital Reserve	4	27,937,056	24,945,587	24,945,587
Equity Injection*	4	-	3,169,520	
Accumulated Profits/(Losses)	6	(10,344,204)	-5,346,328	-1,741,174
TOTAL SHAREHOLDER'S EQUITY		**17,592,851**	**22,768,779**	**23,204,413**

Confirmed: Chairman Chief Executive Officer

PUBLIC UTILITIES BOARD
CASH FLOW STATEMENT AT 31 DECEMBER, 2013

	Notes	2013	Revised 2012	2012
Cash Flows from Operating Activities				
[illegible]		[illegible]	[illegible]	[illegible]
Cash Paid to Suppliers, Employees etc.		-9,588,430	-8,881,612	-8,881,612
Net Cash Flows from Operating Activites	(A)	-515,571	-593,661	-593,661
Cash Flows from Financing Activities				
Government Subsidy		480,000	480,000	1,729,960
Equity Injection			1,249,960	
BOK Loan Proceeds				
Loan Repayment & Interest			-50,000	-50,000
Net Cash Flows from Financing Activites		**480,000**	**1,679,960**	**1,679,960**
Cash Flows from Investing Activities				
Cash Proceeds from AusAid Project		430,455		
Cash Proceeds from Sale of Assets		1,900	3,755	3,755
IBD Interest Received		463	1,545	1,545
IBD Transfer to Cheque Account		-90,000		
Cash Paid from AusAid Project Funds		-93,984		
Purchase of Assets		-182,808	-333,589	-333,589
Net Cash Flows from Investing Activites		**66,027**	**-328,289**	**-328,289**
Net Increase / (Decrease) for the Period		30,456	758,010	758,010
Add Cash Balances & Cash equivalent at the Beginning		99,530	-658,480	-658,480
Cash Balance & Cash equivalent at the End of the Period		**129,986**	**99,530**	**99,530**
Cash & Cash Equivalents				
Cash at Bank - Cheque Account		-208,012	9,367	9,367
Project Funds		336,471	0	0
Petty Cash		900		
Interest Bearing Deposit (IBD) - BOK		627	90,163	90,163
Total	5	**129,986**	**99,530**	**99,530**

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

	2013	Revised 2012	2012
Operating Profit (Loss) for Year	**(1,433,285)**	**(1,273,687)**	**1,471,468**
Depreciation	1,325,900	1,241,450	1,241,450
Government Subsidy	(480,000)	-1,729,960	-1,729,960
Increase / Decrease in Trade Debtors	3,420,169	-1,402,977	-1,846,506
Increase /Decrease in Provision for Doubtful Debts	-	-57,845	-57,845
Increase / Decrease in Prepayment/Sundry Debtors	33,635	-64,850	-56,955
Increase / Decrease in Staff Debts	(51,021)	110,918	110,918
Increase / Decrease in Stock	49,832	-256,248	-256,248
Increase / Decrease in Trade Creditors	929,566	2,386,774	2,386,774
Increase / Decrease in Sundry Creditors	87,842	13,014	13,014
Increase / Decrease in Capital Aid Reserve	2,991,469		
Increase / Decrease in ANZ Bank Loan	-	-1,420,775	-1,420,775
Increase / Decrease in Fixed Assets	(589,538)	-798,152	-798,152
Increase / Decrease in Equity Injection	(3,169,520)	2,309,520	
Capital Aid Reserve - Released as Income	958,018		
Interest on ADB Loan		6,871	6,871
ANZ Loan Repayment	-	50,000	50,000
IBD Transfer to Cheque Account	90,000		
IBD Interest Received	(463)	-1,545	-1,545
Prior Period Items	(138,548)	-36,005	-36,005
Bad Debts Written-Off	(4,384,061)		
Proceeds from Sale of Motor Vehicle	(1,900)	-3,755	-3,755
Adjustment on Project Funds	(336,471)		
Adjustment on Fixed Assets and Stock	182,808	333,589	333,589
Cash Flows from Operating Activites	**-515,571**	**-593,661**	**-593,661**

Confirmed:

Chairman

Chief Executive Officer

(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 Net Realizable 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 Amortized as Income for subsequent periods at a Rate of Depreciation applied for the Capital Assets acquired under a grant.

(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 - 2013

		PLANTS & MACHINERIES							
		WATER	SEWERAGE	ELECTRICAL	TOTAL	BUILDINGS	FURNITURE FITTINGS & EQUIPMENT	MOTOR VEHICLES	GRAND TOTAL
Cost	As at 1/01/13	6,014,319	2,171,920	24,759,046	32,945,285	734,361	483,400	1,376,264	35,539,310
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**	**27,148,968**	**43,019,929**	**1,252,861**	**483,400**	**1,376,264**	**46,132,454**
Cost	Additions	-	24,167	225,066	249,233	-	63,339	276,967	589,538
	As at 31/12/13	**7,323,041**	**8,572,087**	**27,374,034**	**43,269,161**	**1,252,861**	**546,739**	**1,653,230**	**46,721,992**
Depreciation	As at 1/01/13	3,333,215	5,398,393	11,249,138	19,980,746	767,163	453,163	1,275,787	22,476,859
	Annual Charge	317,232	210,432	633,805	1,161,469	20,315	21,505	122,611	1,325,900
	As at 31/12/13	**3,650,447**	**5,608,825**	**11,882,943**	**21,142,215**	**787,478**	**474,668**	**1,398,398**	**23,802,759**
Net Book Value	As at 1/01/13	3,989,826	3,149,527	15,899,830	23,039,182	485,698	30,237	100,477	23,655,595
	As at 31/12/13	3,672,594	2,963,262	15,491,091	22,126,946	465,383	72,072	254,832	22,919,233

(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 1/01/13	-35,898	886,919	874,653	1,761,572
Adjustment	0	0	0	0
Balance 31/12/13	-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 1/01/13	-30,061	1,202,546	1,070,300	2,272,846
Adjustment	0	0	0	0
Balance 31/12/13	-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 1/01/13	-65,958	2,089,465	1,944,954	4,034,419
Adjustment	0	0	0	0
Balance 31/12/13	-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 1/01/13	1,913,463	124,419	-2,037,882	0
Repayment	0	0	0	0
Balance 31/12/13	1,913,463	124,419	-2,037,882	0

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

(4) Capital Reserve	2013	Revised 2012	2012
Grant Reserve			
Balance 1/01/13	21,451,541	22,372,670	22,372,670
Amortised as Income	-958,018	-921,129	-921,129
Balance 31/12/13	20,493,523	21,451,541	21,451,541
Revaluation Reserve			
Balance 1/01/13	3,494,046	3,494,046	3,494,046
Balance 31/12/13*	7,443,533	3,494,046	3,494,046
Total	**27,937,056**	**24,945,587**	**24,945,587**

Disclosing Notes to Note 4:

*The NZ Aid WatSan Project Net Aid Funds of $443,495.62 is included in the Capital Aid Reserve under Revaluation Reserve per Acquittal Report at 31/10/2013 sent to NZHC Office.

*Equity Injection of $3,169,520.02 which stands alone in the 2012 Annual Accounts is also included. in the Capital Aid Reserve.

(5) Cash at Bank			
Account No. 298142	(208,012)	9,367	9,367
IBD	627	90,163	90,163
Petty Cash Imprest	900	0	
NZAid WatSan Project*	-	0	
AusAid Project**	336,471	0	
Power Project	-		
Total	**129,986**	**99,530**	**99,530**

Disclosing Notes to Note 5:

*Received NZAid WatSan Project Funds ~~in Total Cash~~ of $224,246.40 in 2012 and 2013. Acquittal Report submitted to the NZHC, Bairiki at completion of Project on 31/10/2013. Funds being accounted for in the 2013 Annual Financial Report.

**Received AusAid Project Funds In Total Cash of $430,455 on 3/9/2013. Ending Cash Balance as at 31/12/2013 is $336,471.25. Funds included and accounted for in this Annual Financial Report. Acquittal Report for first half completed and submitted to AHC, Bairiki at end of January 2014.

(6) Accumulated Loss			
Balance 1/01/13	**-5,346,329**	**-4,957,766**	**-4,097,766**
Net Profit/Loss (-) for the year*	-4,997,876	-388,563	2,356,591
Balance 31/12/13	**-10,344,205**	**-5,346,329**	**-1,741,174**

Disclosing Notes to Note 6 :

*The Write-off of Water Debtors for $4,331,028.58 as Bad, contributes to a significant amount of loss during the year, 2013. References per SBM No: 102013 of 14/04/2013 and SBM No:112013 of 17/04/2013. Total Write-off is $4,384,061.37 which includes Electricity Debtors write-off of $53,032.79 as Bad Debts. Monthly Domestic Water Sales to Domestics being stopped since March 2013.

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

	2013	Revised 2012	2012
(7) Government Subsidy			
Sewerage Operations	480,000	480,000	480,000
Power Supply	0	0	589,960
Other Grants	0	0	2,155,194
Total	480,000	480,000	3,225,154

(8) Prior Period Items/Adjustments

Other Expenses and Income	12,480	-36,005	-36,005
2012 Major Overhaul Expenses*	126,069		
	138,548		

Disclosing Note: 2012 Major Overhaul Expenses - Daikai Engineering Pty Ltd:

*According to PUB's records, and in relation to the 2012 Major Overhaul Maintenance of Gen Sets for Power Generation, PUB owes Daikai JPY23,662,739 for Engine Spares and SGP 233,192 for Service Charges as at 31/12/2013 as per Reconciliation Statement of Account. Estimated rate used to convert JPY to AUD and SGP to AUD is 77.4078 and 1.2331 respectively. Thus:

a) JPY23,662739.18/77.4078 is equivalent to AUD305,689.34
b) SGP233,191.98/1.2331 is equivalent to AUD189,110.36
c) Estimated Total Amount Owed to Daikai as at 31/12/2013 = $494,799.69
d) Total Amount owed may be subject to change depending on the conversion rate that will be used at point of payment or transaction.

Original Invoices and Documents such as freight and other related costs for bringing in the items were received late. In this case, some costs were determined using Quoted Prices provided by Daikai Engineering Pty Ltd in Japan. This had contributed to underestimating costs and the amount payable to Daikai in 2012 for the Overhaul Maintenance of power generators. In addition, the exchange currency rate may significantly affect the amount of debt to Daikai. A number of Invoices could be found different in amount thus, a proper reconciliation of the amount owed to Daikai is necessarily required.

(9) Trade Creditors

Trade Creditors - Local

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

Trade Creditors - Overseas

*Significant increase relates to PPI (Prior Period Items) as disclosed in Note 8 above.

(10) Trade Debtors

*Water Trade Debtors significantly drops. This relates to Write-off of Trade Debtors disclosed in Note (6) above.

(11) Bad/Doubtful Debts

* A significant loss during the year 2013 results especially from the Write-off of Domestic Water Debtors while partly from Electricity Debtors as disclosed in Note (6) above.

Confirmed: Chairman Chief Executive Officer