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 2014

Kiribati National Audit Office
April 2016

KIRIBATI NATIONAL AUDIT OFFICE

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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 2014

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 and it comprised of:

- the Statements of Financial Position as at 31 December, 2014,
- Statement of Financial Performance,
- a Cash Flow statement and
- a summary of significant accounting policies and other explanatory information.

The audit covered the Boards 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 2014.

Managements and Board Directors Responsibility for the Financial Statements

PUB's managements and Board Directors are responsible for preparing the financial statements in accordance with generally accepted accounting practice and for such internal controls as management determines 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 satisfy myself as to the correctness of PUB's Financial Statements for the year ended 31st Dec, 2014 due to the following:

- A significant discrepancy of 1.59m was noted between PUB's outstanding debt record and KOIL's record.
- We were concerned that PUB's cash losses and Unallocated staff debts increased in 2014 when compared to 2013 figure.
- Sundry creditors showed negative balances hence indicating that there had been miss-postings to the account.
- We were unable to verify Trade Debtors balance due to the following:
  - Provision for Doubtful Debts deemed unreasonable as the changes in trade debtor's balance together with debtors written off were not considered in the calculation of the provision.
  - Aging of Debtors was not provided.
  - A variance of $39k was noted between debtor's listing and the balance shown on the financial statement.
- A total of $107,950 worth of PVs found not signed for approval hence indicating PUB's noncompliance to payment internal control procedures.
- Fixed Assets:
  - There was no physical counting of fixed assets at year end.
  - Serial numbers were not recorded in the fixed assets register making it difficult to identify assets correctly.
- Audit fee for prior years outstanding of $15,200 were not accounted for in the 2014 account.

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.

The audit was completed on 28 April, 2016 and was the date at which our opinion was expressed.

The basis of our opinion and independence are explained below:

Basis of Opinion

We carried out the audit in accordance with the generally accepted auditing practice in Kiribati.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We randomly select transactions when conducting our audit, therefore we could not guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Independence

When carrying out the audit we followed the independence requirement stipulated under Section 114 (4) of the Kiribati Constitution, 1979 and the International Standards of Auditing.

Other than the audit, we have no relationship with or interests in PUB.

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Matereta B Raiman
Auditor General
Kiribati National Audit Office

PUBLIC UTILITIES BOARD

FINANCIAL STATEMENTS – 2014

SUBMITTED TO KIRIBATI NATIONAL AUDIT OFFICE – 30 MARCH 2015

PUBLIC UTILITIES BOARD
FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER, 2014

INCOME	NOTES	2014	2013
Electricity Sales		10,021,781	9,563,756
Water Sales		708,488	339,069
Government Subsidy*	7	480,000	480,000
Other Income		228,430	139,873
Total Income		**11,438,699**	**10,522,698**
EXPENDITURE			
Fuel & Lubricant		8,536,879	8,144,602
Fuel - Motor Vehicles		63,439	58,527
New Connections & Installations		27,304	36,097
Postage, Printing & Stationeries		29,031	27,850
Operating & Other Supplies		25,833	18,529
KPF Contributions		80,732	80,124
Leave Grants & Passages		103,530	97,563
Salaries, Overtime & Allowances		1,608,537	1,650,321
Repairs & Maintenance		122,732	192,657
Depreciation		1,309,262	1,325,900
Overseas Travel & Training		47,060	33,302
Travelling & Transport*	11	42,404	27,481
Telecom Charges		47,191	45,288
Chlorination		56,722	52,978
Insurance & Subscriptions		10,142	7,575
Advertising		20,846	19,784
Board Expenses		28,076	21,233
Audit Fees		2,500	-
Land Lease & Compensation		4,713	3,097
Bank Charges		53,497	49,086
Staff Subsidised Rent		24,935	28,731
Interest on L/T Loan			-
Other Expenses		96,198	35,168
Redundancy			
Total Expenditure		**12,341,563**	**11,955,983**
OPERATING PROFIT/(LOSS)		**(902,864)**	**(1,433,285)**
ABNORMAL ITEMS			
Bad/Doubtful Debts*		-	(4,384,061)
Prior Period Items (PPI)	8	14,926	(138,548)
Amortisation-Aid Reserve Released as Income		1,007,443	958,018
NET PROFIT/(LOSS)		**119,504**	**(4,997,876)**

Confirmed: Chairman Chief Executive Officer (Int[illegible]rim)

PUBLIC UTILITIES BOARD
FINANCIAL POSITION AS AT 31 DECEMBER, 2014

	NOTES	2014	2013
CURRENT ASSETS			
Trade Debtors*		7,289,051	5,681,505
Provision for Bad Debts		(903,185)	(903,185)
Sundry Debtors		9,800	41,015
Prepayment		61,899	-
Staff Debts		172,540	180,480
Cash at Bank	5	57,773	129,986
Stock		1,295,552	1,182,639
Provision for Obsolete Stock			
Total Current Assets		**7,983,430**	**6,312,439**
CURRENT LIABILITIES			
Current Portion of L/T Loan - ADB	3	-	(65,958)
Trade Creditors*	9	8,791,402	7,630,720
Sundry Creditors		(48,280)	39,639
'AT Collected / Payable**	10	581,838	
Total Current Liabilities		**9,324,961**	**7,604,401**
WORKING CAPITAL		**(1,341,530)**	**(1,291,962)**
NON-CURRENT ASSETS			
Buildings		1,252,861	1,252,861
Plants & Machineries		43,445,257	43,269,161
Furniture, Fittings & Equipment		558,445	546,739
Motor Vehicles		1,656,730	1,653,230
Accumulated Depreciation		(25,112,021)	(23,802,759)
Total Non-Current Assets	2	**21,801,272**	**22,919,233**
LONG-TERM LIABILITIES			
ADB Loan	3	3,968,462	4,034,420
Total Long-Term Liabilities		**3,968,462**	**4,034,420**
NET WORTH		**16,491,280**	**17,592,851**
SHAREHOLDER'S EQUITY			
Capital Reserve	4	26,715,980	27,937,056
Accumulated Profits/(Losses)	6	(10,224,700)	(10,344,204)
TOTAL SHAREHOLDER'S EQUITY		**16,491,280**	**17,592,851**

Confirmed: Chairman Chief Executive Officer (Interim)

PUBLIC UTILITIES BOARD

FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER, 2014

INCOME	NOTES	2014	2013
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Audit Fees		2,500	-
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Bank Charges		53,497	49,086
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Other Expenses		96,198	35,158
Redundancy			
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Confirmed: ______________ Chairman ______________ Chief Executive Officer (Interim)

PUBLIC UTILITIES BOARD
FINANCIAL POSITION AS AT 31 DECEMBER, 2014

	NOTES	2014	2013
CURRENT ASSETS			
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Provision for Bad Debts		(903,185)	(903,185)
Sundry Debtors		9,800	41,015
Prepayment		61,899	-
Staff Debts		172,540	180,480
Cash at Bank	5	57,773	129,986
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Current Portion of L/T Loan - ADB	3	-	(65,958)
Trade Creditors*	9	8,791,402	7,630,720
Sundry Creditors		(48,280)	39,639
VAT Collected / Payable**	10	581,838	
Total Current Liabilities		**9,324,961**	**7,604,401**
WORKING CAPITAL		**(1,341,530)**	**(1,291,962)**
NON-CURRENT ASSETS			
Buildings		1,252,861	1,252,861
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TOTAL SHAREHOLDER'S EQUITY		**16,491,280**	**17,592,851**

Confirmed:

Chairman

Chief Executive Officer (Interim)

PUBLIC UTILITIES BOARD
CASH FLOW STATEMENT AT 31 DECEMBER, 2014

	Notes	2014	2013
Cash Flows from Operating Activities			
Cash Receipts from Customers & Other Income		9,772,067	9,072,859
Cash Paid to Suppliers, Employees etc		(9,979,372)	(9,588,430)
Net Cash Flows from Operating Activites	(A)	**(207,305)**	**(515,571)**
Cash Flows from Financing Activities			
Government Subsidy		480,000	480,000
Net Cash Flows from Financing Activites		**480,000**	**480,000**
Cash Flows from Investing Activities			
Cash Proceeds from AusAid Project			430,455
Cash Proceeds from Sale of Assets		5,650	1,900
IBD Interest Received		5	463
IBD Transfer to Cheque Account			(90,000)
Cash Paid from AusAid Project Funds		(205,738)	(93,984)
Purchase of Assets		(144,824)	(182,808)
Net Cash Flows from Investing Activites		**(344,907)**	**66,027**
Net Increase / (Decrease) for the Period		(72,212)	30,456
Add Cash Balances & Cash equivalent at the Beginning		129,986	99,530
Cash Balance & Cash equivalent at the End of the Period		**57,773**	**129,986**

Cash & Cash Equivalents

	Notes	2014	2013
Cash at Bank - Cheque Account		(74,491)	(208,012)
Project Funds		130,733	336,471
Petty Cash		900	900
Interest Bearing Deposit (IBD) - BOK		632	627
Total	5	**57,773**	**129,986**

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

	2014	2013
Operating Profit (Loss) for Year	**(902,864)**	**(1,433,285)**
Depreciation	1,309,262	1,325,900
Government Subsidy	(480,000)	(480,000)
Increase / Decrease in Trade Debtors	(1,607,546)	3,420,169
Increase / Decrease in Prepayment/Sundry Debtors	(30,684)	33,635
Increase / Decrease in Staff Debts	7,940	(51,021)
Increase / Decrease in Stock	(112,913)	49,832
Increase / Decrease in Trade Creditors	1,160,682	929,566
Increase / Decrease in Sundry Creditors	(87,919)	87,842
Increase / Decrease in Capital Aid Reserve	(1,221,076)	2,991,469
Increase / Decrease in Fixed Assets	(191,302)	(589,538)
Increase / Decrease in Equity Injection	0	(3,169,520)
Increase / Decrease in VAT Collected / Payable	581,838	
Capital Aid Reserve - Released as Income	1,007,443	958,018
IBD Transfer to Cheque Account		90,000
IBD Interest Received	(5)	(463)
Prior Period Items	14,926	(138,548)
Bad Debts Written-Off		(4,384,061)
Proceeds from Sale of Motor Vehicle	(5,650)	(1,900)
Adjustment on Project Funds	205,738	(336,471)
Adjustment on Fixed Assets and Stock	144,824	182,808
Cash Flows from Operating Activites	**(207,305)**	**(515,571)**

Confirmed:

Chairman	Chief Executive Officer (Interim)

(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 - 2014

		PLANTS & MACHINERIES							
		WATER	SEWERAGE	ELECTRICAL	TOTAL	BUILDINGS	FURNITURE FITTINGS & EQUIPMENT	MOTOR VEHICLES	GRAND TOTAL
Cost	As at 1/01/14	6,014,319	2,196,087	24,984,112	33,194,517	734,361	546,739	1,653,230	36,128,848
Valuation		1,308,722	6,376,000	2,389,922	10,074,644	518,500			10,593,144
Total		7,323,041	8,572,087	27,374,034	43,269,161	1,252,861	546,739	1,653,230	46,721,992
Cost	Additions			176,096	176,096		11,706	3,500	191,302
	As at 31/12/14	7,323,041	8,572,087	27,550,129	43,445,257	1,252,861	558,445	1,656,730	46,913,294
Depreciation	As at 1/01/14	3,650,447	5,608,825	11,882,943	21,142,215	787,478	474,668	1,398,398	23,802,759
	Annual Charge	316,299	213,117	649,704	1,179,120	20,315	28,597	81,229	1,309,262
	As at 31/12/14	3,966,746	5,821,942	12,532,647	22,321,335	807,794	503,265	1,479,627	25,112,021
Net Book Value	As at 1/01/14	3,672,594	2,963,262	15,491,091	22,126,946	465,383	72,072	254,832	22,919,233
	As at 31/12/14	3,356,294	2,750,145	15,017,482	21,123,921	445,067	55,181	177,103	21,801,273

(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 1/01/14	-35,898	886,919	874,653	1,761,572
Adjustment	-35,898	-35,898		-35,898
Balance 31/12/14	0	851,021	874,653	1,725,674

(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 1/01/14	-30,061	1,202,546	1,070,300	2,272,846
Adjustment	-30,061	-30,061		-30,061
Balance 31/12/14	0	1,172,485	1,070,300	2,242,785

Total ADB Loan - AUD $2,279,470.00

	Current Liability	Long Term Liability		Total
		Principal	Interest	
Balance 1/01/14	(65,959)	2,089,465	1,944,954	4,034,419
Adjustment	(65,959)	(65,959)	0	(65,959)
Balance 31/12/14	-	2,023,506	1,944,954	3,968,460

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

(4) Capital Reserve

		2014	2013
	Grant Reserve		
	Balance 1/01/14	20,493,523	21,451,541
	Amortised as Income	(1,007,443)	-958,018
	Balance 31/12/14	**19,486,080**	**20,493,523**
	Revaluation Reserve		
	Balance 1/01/14	3,494,046	3,494,046
	Balance 31/12/14*	7,229,900	7,443,533
	Total	**26,715,980**	**27,937,056**

(5) Cash at Bank

	Cheque Account No. 298142	-74,491	-208,012
	IBD	632	627
	Petty Cash Imprest	900	900
	NZAid WatSan Project*	0	0
	AusAid Project**	130,733	336,471
	Power Project	0	0
	Total	**57,773**	**129,986**

Disclosing Notes to Note 5:

**Received AusAid Project Funds In Total Cash of $430,455 on 3/9/2013. Ending Cash Balance as at 31/12/2014 is $130,733.38. Funds included and accounted for in this Annual Financial Report. Acquittal Report for end of 2014 completed and submitted to AHC, Bairiki. This Project will be completed in June 2015.

**AusAid Project Funds	2014	2013
Balance 1/01/14	336,471	430,455
Released during the year	205,738	93,984
Balance 31/12/14	**130,733**	**336,471**

(6) Accumulated Loss

	Balance 1/01/14	-10,344,205	-5,346,329
	Net Profit/Loss (-) for the year*	119,504	-4,997,876
	Balance 31/12/14	-10,224,701	-10,344,205

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

	2014	2013
(7) Government Subsidy		
Sewerage Operations	480,000	480,000
Power Supply	0	0
Other Grants	0	0
Total	480,000	480,000

(8) Prior Period Items/Adjustments

	2014	2013
Other Expenses	(17,426)	12,480
Audit Fees for 2013	2,500	
2012 Major Overhaul Expenses*	0	126,069
	-14,926	138,548

(9) Trade Creditors

Trade Creditors - Local

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

(10) VAT Collected / Payable

**VAT payable late fees are not accounted for in this 2014 AFR based on disputes for accounting for VAT (with Tax Office) from that of Accrual Basis of Accounting. Since VAT and Excise Act is also very new (implemented on 1 April 2014 this year), accounting for VAT Collected / Payable needs also to be reconsidered for both parties to finally agree on the correct amount of VAT Collected / Payable / Paid and how to account for them. Adjustment will be made when both parties have agreed.

(11) Travelling & Transport

* A substantial increase in expense for 2014 travelling and transport when compared with the 2013 is due to very old existing motor-vehicles experiencing a number of break downs with repair and maintenance. Additionally, there is insufficient funds to purchase new motor vehicles, thus concentrating more on hire of vehicles to carry out operational tasks/activities when motor-vehicles break down, hence the increase in travelling and transport expenses in 2014.

Confirmed: Chairman Chief Executive Officer (Interim)