REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Public Utilities Board
For the Year Ended 31st December 2015

Kiribati National Audit Office
December 2016

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 Financial Statements
For the year ended 31st December 2015

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 2015. The financial statements comprised of:

- the Balance Sheet as at 31st December 2015, 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.

Report on Legal and Regulatory Requirements

SOE Act. 2012 Sec. 20 requires Audited Financial Statements to be submitted within three months after balance date however PUB lodged its 2015 Financial Statement on 31 March, 2016 giving very limited time for KNAO to conduct an audit. Financial Statements should be submitted well in advance before March.

Basis of Opinion

We carried out the audit in accordance with the Generally Accepted Auditing Principles as applied 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 did not examine every transaction, 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.

Audit Opinion

Qualifications:

- Dishonoured cheques were increasing to $7.3 million in 2015.
- Cash losses kept on increasing year after year. In 2015 the Cash loss was over $9k and this had therefore increased the accumulated cash loss to $43,278.81. This was a repeated issue from last audit therefore requires speedy remedial actions.
- Unallocated staff debt of $23k was another concern as it continued to show up in Staff Debtors account from 2014.

Qualified Opinion

In my opinion, except for the effects of the matters referred to in the qualification paragraph, the financial statements of the PUB for the year ended 31 December 2015:

- Comply with generally accepted accounting practice as they apply in Kiribati;
- Fairly reflect the results of its operations and cash flows for year ended 31 December 2015;
- Fairly reflect the company's financial position for year ended 31 December 2015

The audit was completed on 22nd February 2017, and was the date at which our opinion was expressed.

Independence

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

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

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Mrs Matereta B Raiman

Auditor General

PUBLIC UTILITIES BOARD

FINANCIAL STATEMENTS FOR 2015

SUBMITTED TO KIRIBATI NATIONAL AUDIT OFFICE – 31 MARCH 2016

PUBLIC UTILITIES BOARD
FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2015

INCOME	NOTES	2015	2014
Electricity Sales		9,615,325	10,021,781
Internal Electricity Sales - PUB Water & Sewerage		121,850	
Water Sales		750,147	708,488
Government Subsidy*	7	-	480,000
Other Income		217,957	228,430
Total Income		**10,705,280**	**11,438,699**
EXPENDITURE			
Fuel & Lubricant		7,429,321	8,536,879
Fuel - Motor Vehicles		51,750	63,439
New Connections & Installations		4,994	27,304
Postage, Printing & Stationeries		47,588	29,031
Operating & Other Supplies		42,718	25,833
KPF Contributions		79,482	80,732
Leave Grants & Passages		201,070	103,530
Salaries, Overtime & Allowances		1,600,836	1,608,537
Staff Subsidised Rent		24,697	24,935
Repairs & Maintenance		161,554	122,732
Depreciation		1,487,914	1,309,262
Overseas Travel & Training		48,450	47,060
Travelling & Transport*		83,033	42,404
Telecom Charges		64,520	47,191
Chlorination		63,297	56,722
Insurance & Subscriptions		10,487	10,142
Advertising		36,830	20,846
Board Expenses		12,817	28,076
Audit Fees		2,500	2,500
Land Lease & Compensation		4,040	4,713
Bank Charges		52,233	53,497
Other Expenses		206,606	96,198
Total Expenditure		**11,716,737**	**12,341,563**
OPERATING PROFIT/(LOSS)		**(1,011,457)**	**(902,864)**
ABNORMAL ITEMS			
Bad/Doubtful Debts	12	(1,245,875)	-
Prior Period Items (PPI)	8	563,499	14,926
Amortisation-Aid Reserve Released as Income		1,187,932	1,007,443
NET PROFIT/(LOSS)		**(505,901)**	**119,504**

Confirmed:	Chairman Eriati Taum'a	CEO Peregrine Tonking	CEO (Interim) Tokaata Niata

PUBLIC UTILITIES BOARD
FINANCIAL POSITION AS AT 31 DECEMBER, 2015

	NOTES	2015	2014
CURRENT ASSETS			
Trade Debtors*	11	8,994,409	7,289,051
Provision for Bad/Doubtful Debts		(2,149,060)	(903,185)
Sundry Debtors		9,800	9,800
Prepayment		376,415	61,899
Staff Debts		158,481	172,540
Cash at Bank	5	284,337	57,773
Stock		1,627,927	1,295,552
Total Current Assets		**9,302,309**	**7,983,430**
CURRENT LIABILITIES			
Trade Creditors	9	7,659,618	8,791,402
Sundry Creditors	13	140,612	(48,280)
VAT Collected / Payable	10	1,021,356	581,838
Total Current Liabilities		**8,821,586**	**9,324,961**
WORKING CAPITAL		**480,723**	**(1,341,530)**
NON-CURRENT ASSETS			
Buildings		1,342,850	1,252,861
Plants & Machineries		55,818,807	43,445,257
Furniture, Fittings & Equipment		610,025	558,445
Motor Vehicles		1,717,580	1,656,730
Accumulated Depreciation		(26,599,935)	(25,112,021)
Total Non-Current Assets	2	**32,889,327**	**21,801,272**
LONG-TERM LIABILITIES			
ADB Loan	3	3,968,462	3,968,462
Total Long-Term Liabilities		**3,968,462**	**3,968,462**
NET WORTH		**29,401,588**	**16,491,280**
SHAREHOLDER'S EQUITY			
Capital Reserve	4	40,132,189	26,715,980
Accumulated Profits/(Losses)	6	(10,730,601)	(10,224,700)
TOTAL SHAREHOLDER'S EQUITY		**29,401,588**	**16,491,280**

Confirmed:	Chairman Eriati Taum'a	CEO Peregrine Tonking	CEO (Interim) Tokaata Niata

PUBLIC UTILITIES BOARD
CASH FLOW STATEMENTS AS AT 31 DECEMBER, 2015

	Notes	2015	2014
Cash Flows from Operating Activities			
Cash Receipts from Customers & Other Income		10,106,107	9,772,067
Cash Paid to Suppliers, Employees etc.		(9,979,159)	(9,979,372)
Net Cash Flows from Operating Activites	(A)	**126,948**	**(207,305)**
Cash Flows from Financing Activities			
Government Subsidy		-	480,000
Net Cash Flows from Financing Activites		-	**480,000**
Cash Flows from Investing Activities			
Cash Proceeds from Government		1,265,573	
Cash Proceeds from NZ MFAT		124,955	
Cash Proceeds from UAE Funds		7,950	
Cash Proceeds from Sale of Assets			5,650
IBD Interest Received			5
IBD Transfer to Cheque Account		(632)	
Cash Paid from AusAid DFAT		(130,726)	(205,738)
Cash Paid from Government		(1,002,561)	
Cash Paid from UAE		(8,183)	
Purchase of Fixed Assets		(156,761)	(144,824)
Net Cash Flows from Investing Activites		**99,615**	**(344,907)**
Net Increase / (Decrease) for the Period		226,563	(72,212)
Add Cash Balances & Cash equivalent at Beginning		57,773	129,986
Cash Balance & Cash equivalent at the End of the Period		**284,337**	**57,773**
Cash & Cash Equivalents			
Cash at Bank - Cheque Account		(104,104)	(74,491)
Project Funds		387,741	130,733
Petty Cash		700	900
Interest Bearing Deposit (IBD) - BOK		-	632
Total	5	**284,337**	**57,773**

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

	2015	2014
Operating Profit (Loss) for Year	**(1,011,457)**	**(902,864)**
Depreciation	1,487,914	1,309,262
Government Subsidy	-	(480,000)
Increase / (Decrease) in Trade Debtors	(1,705,358)	(1,607,546)
Increase /(Decrease) in Provision for Doubtful Debts	1,245,875	-
Increase / (Decrease) in Prepayment	(314,516)	(30,684)
Increase / (Decrease) in Staff Debts	14,059	7,940
Increase / (Decrease) in Stock	(332,375)	(112,913)
Increase / (Decrease) in Trade Creditors	(1,131,784)	1,160,682
Increase / (Decrease) in Sundry Creditors	188,891	(87,919)
Increase / (Decrease) in Capital Aid Reserve	10,557,195	(1,221,076)
Increase / (Decrease) in Fixed Assets	(156,761)	(191,302)
Increase / (Decrease) in Equity Injection	2,859,014	-
Increase / (Decrease) in VAT Collected / Payable	439,518	581,838
Capital Aid Reserve - Released as Income	1,187,932	1,007,443
IBD Interest Received	-	(5)
Prior Period Items	563,499	14,926
Bad/Doubtful Debts	(1,245,875)	-
Proceeds from Sale of Motor Vehicle	-	(5,650)
Adjustment on Project Funds	(99,615)	205,738
Adjustment on Fixed Assets and Stock	(12,419,208)	144,824
Cash Flows from Operating Activites	**126,948**	**(207,305)**

Confirmed:	Chairman Eriati Taum'a	CEO Peregrine Tonking	CEO (Interim) Tokaata Niata

(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 - December 2015

		PLANTS & MACHINERIES					FURNITURE FITTINGS &	MOTOR	GRAND
		WATER	SEWERAGE	ELECTRICAL	TOTAL	BUILDINGS	EQUIPMENT	VEHICLES	TOTAL
Cost	**As at 1/01/15**	6,014,319	2,196,087	25,160,207	33,370,613	734,361	558,445	1,656,730	36,320,149
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**	**27,550,129**	**43,445,257**	**1,252,861**	**558,445**	**1,656,730**	**46,913,293**
	Additions	299,667	-	12,073,883	12,373,550	89,989	51,580	60,850	12,575,969
	As at 31/12/15	**7,622,708**	**8,572,087**	**39,624,013**	**55,818,807**	**1,342,850**	**610,025**	**1,717,580**	**59,489,262**
Accumulated Depreciation	**As at 1/01/15**	3,966,746	5,821,942	12,532,647	22,321,335	807.794	503,265	1,479,627	25,112,021
	Depreciation Charge - 2015	324,576	213,117	811,051	1,348,744	22,940	30,010	86,220	1,487,914
	As at 31/12/15	**4,291,323**	**6,035,059**	**13,343,698**	**23,670,079**	**830,734**	**533,275**	**1,565,847**	**26,599,935**
Net Book Value	As at 1/01/15	3,356,294	2,750,145	15,017,482	21,123,921	445,067	55,180	177,103	21,801,272
	As at 31/12/15	**3,331,385**	**2,537,028**	**26,280,315**	**32,148,728**	**512,116**	**76,750**	**151,734**	**32,889,328**

(3) Asian Development Bank (ADB) Loan

(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 1/01/15	-	851,021	874,653	1,761,572
Adjustment	-	-		-
Balance 31/12/15	-	851,021	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 1/01/15	-	1,172,485	1,070,300	2,242,785
Adjustment	-	2		2
Balance 31/12/15	-	1,172,487	1,070,300	2,242,787

Total ADB Loan

	Current Liability	Long Term Liability		Total
		Principal	Interest	
Balance 1/01/15	0	2,023,506	1,944,954	3,968,460
Adjustment	-	2	-	2
Balance 31/12/15	0	2,023,508	1,944,954	3,968,462

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

(4) Capital Reserve		2015	2014
	Grant Reserve		
	Balance 1/01/15	19,486,080	20,493,523
	Amortised as Income	(1,187,932)	(1,007,443)
	Balance 31/12/15	**18,298,148**	**19,486,080**
	Revaluation Reserve		
	Balance 1/01/15	3,494,046	3,494,046
	Balance 31/12/15*	21,834,042	7,229,900
	Total	**40,132,189**	**26,715,980**

Disclosing Note 4:

*The NZ MFAT Project Aid Funds of $124,955 received end of December 2015 for Bonriki Water Pumps is included in the Capital Aid Reserve (Also refer to note for Capital Aid Reserve below):

*The Australian Cash Grant/ MFAT Project has been completed (Refer Disclosing Note (5) below)

***Equity Injection/Capital Reserve of $2,859,014.09 includes the following:**

	2015	2014
a) Receipt from Gov't for 2015 Major Overhaul and Service of Generators and Clearance of outstanding debt with Daikai for the 2012 Overhaul and Service of Power Generators	1,265,573	-
b) Set-off from NPGA to reduce outstanding debt with KOIL	1,393,441	-
c) Off-set from Gov't CSO to reduce outstanding debt with KOIL	200,000	-
Total Equity Injection	**2,859,014**	-

***Other donated/granted items and projects included in the Capital Aid Reserve are as follows:**

	2015	2014
a) PEC Solar PV Grid Project - installed and commissioned Apr 2015	5,255,396	
b) UAE Solar PV Grid Project - installed and commissioned 2015	5,977,922	
c) Spares for Solar Water Protection funded by UAE	50,428	
d) Tools and Equipment for Solar Water Protection funded by UAE	3,516	
e) NZ MFAT Project Aid Funds for Bonriki Water Pumps	124,955	
f) Payments made from DFAT Cash Grant (Capital Aid Reserve)	(130,726)	
g) Capitalising items donated through AusAid/DFAT Cash Grant	430,448	
h) 10 x Motorbikes granted by KAPIII	33,190	
Total Capital Aid Reserve	**11,745,128**	-

(5) Cash at Bank		2015	2014
	Account No. 298142	(104,104)	(74,491)
	IBD	-	632
	Petty Cash Imprest	700	900
	NZ MFAT Project*	124,955	-
	AusAid Project*	7	130,733
	UAE Solar Project	(233)	
	Kiribati Gov't Power Project	263,012	
	Total	**284,337**	**57,773**

Disclosing Note 5:

*Received AusAid DFAT Cash Grant In Total of $430,455 on 3/9/2013. Ending Cash Balance as at 30/09/2015 is $7.41. Acquittal and Completion Reports have been submitted to MPWU and Planning Office, MFED. The remaining $7.41 has been returned to MFED as per Receipt No: 263301 09/03/16.

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

(6) Accumulated Loss:	2015	2014
Balance 1/01/15	**(10,224,700)**	**(10,344,204)**
Net Profit/Loss (-) for the year*	-505,901	119,504
Balance 31/12/15	**(10,730,601)**	**(10,224,700)**

Disclosing Note 6 :

*Provision for Doubtful Debts is 25% of $8,596,240.71 (Electricity Debtors balance as at 31/12/2015) = $2,149,060.18 Adjustment is made following Board's resolution (NBM No. 12-2015 of 23/12/2015) to match Electricity Debtors Control Account with that of Electricity Debtors Listing. The balance with listing should be used and difference is put up to Board for write-off approval, thus:

	2015
Electricity Debtors Control Account / GL Balance as at 31/12/2015	7,884,542
Increase in Elec Debtors and Previous Years Electricity Sales (PPI)	711,699
Balance per Electricity Debtors Listing as at 31/12/2015	**8,596,241**
Hence, Provision for Doubtful Debts (BS) = 25% of $8,596,240.71	2,149,060
Less Prov for D/Debts accounted for in B/S	(903,185)
Doubtful Debts included in P&L Statement for the year ending 31/12/2015	**1,245,875**

(7) Government Subsidy	2015	2014
Sewerage Operations	-	480,000
Power Supply	-	-
Other Grants	-	-
Total	**-**	**480,000**

(8) Prior Period Items/Adjustments

	2015	2014
a) Differences between the Electricity Debtors Control Account in the GL and the listing as disclosed in Note (6) above treated as PPI	711,699	
b) Other Prior Year Expenses and Income	(148,200)	(17,426)
c) Audit Fees for prior years	-	2,500
	563,499	**(14,926)**

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

(9) Trade Creditors

	2015	2014
Trade Creditors - Local - KOIL	7,373,625	8,348,677
Trade Creditors - Overseas	285,993	442,725
Total Trade Creditors	**7,659,618**	**8,791,402**

Disclosing Note 9: Local Trade Creditors

a) Trade Creditors - Local
*Refering to disclosing notes in the 2013 and 2014 Annual Financial Reports, PUB's Local Trade Creditors mainly with KOIL is subject to change upon receving confirmation from SOEMAU, MFED for a set-off to clear PUB's outstanding debt with KOIL. The following has been adjusted upon receiving copies of the document/letter from OB and following reconciliation of outstanding debt with KOIL:

a) Set-off from NPGA to reduce outstanding debt with KOIL	1,393,441
b) Off-set from Gov't CSO directly made to KOIL to reduce outstanding debt with KOIL	200,000
	1,593,441

Disclosing Note 9: 2015 Major Overhaul & Service - Daikai Engineering Pty Ltd:

b) Trade Creditors - Overseas
*According to PUB's records, in relation to the 2015 Major Overhaul Maintenance of Power Generators PUB owes Daikai JPY 7,933754 for Engine Spares and SGP 179,127.21 for Service Charges as at 31/12/2015 as per Reconciliation Statement of Account. Estimated rate used to convert JPY to AUD and SGP to AUD is 79.5357 and 0.9618 respectively. Thus:

	JPY	SGP	Expected Rate	AUD
a) Spares	7,933,754		79.5357	99,751
b) Service Charges		179,127	0.9618	186,242
c) Estimated Total Amount Owed to Daikai as at 31/12/2015	**7,933,754**	**179,127**		**285,992**

Notes: a) Total Amount owed may be subject to change depending on the conversion exchange rate that will be used at point of payment or transaction.
b) Spare parts for Engine DEG3 (Bikenibeu Power Station) arrived and serviced early in 2016 and were not accounted for herein. Thus, spares and service charges will be reflected in the 2016 Annual Financial Reports.

(10) VAT Payable
Adjustment on Vat Payable is to be reconsidered based on further advise from AG's and Tax Office.

(11) Trade Debtors

Trade Debtors as at 31/12/2015 comprise of:

Electricity Debtors	8,596,241
Water Debtors	398,169
Total Trade Debtors	**8,994,409**

*Electricity Trade Debtors significantly increases as at 31/12/2015. This relates to balancing Trade Debtors control account (in the GL) with that of the Trade Debtors Listing as disclosed in Note (6) above.

(12) Bad/Doubtful Debts

* A significant Doubtful Debts as appeared in the 2015 P&L for $1,245,875 results especially after accounting for write-off of Electricity Debtors as disclosed in Note (6) above.

(13) Sundry Creditors

*Misallocations for Sundry Creditors Accounts made in previous years have been adjusted at year end *31/12/2015 and the difference is allocated to Prior Period Items in the 2015 P&L.

Confirmed:	Chairman	CEO	CEO (Interim)
	Eriati Taum'a	Peregrine Tonking	Tokaata Niata