REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

TELEVISION KIRIBATI LIMITED

FOR THE YEARS ENDED 31st DECEMBER 2006, 30th June 2007 & FOR YEAR ENDED 30th JUNE 2008

KIRIBATI NATIONAL AUDIT OFFICE

August. 2009

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE TELEVISION KIRIBATI LIMITED FOR THE SIX MONTHS ENDED 31 DECEMBER 2006 AND 30th JUNE 2007 AND FOR THE YEAR ENDED 30 JUNE 2008

EXECUTIVE SUMMARY

Findings:

- 2.1 - Television Kiribati Limited reports a net loss of $172,080 for the period ended 30 June 2008.
- 2.2 - The company has a sound liquidity position for the last two (semi-annual) balance sheet dates
- 4.1 - Repayment from Debtors were slow since the MFED ceases deducting from salary of Government employees and transfer them to TKL account (refer to paragraph 4.1);
- 4.2 - Unpresented cheques, valued at $9024.26 remained outstanding for 2006, 2007, 2008 (see paragraph 4.3);
- 4.2.1 - Various deposits amounted to $13,286.65 already appeared in the Bank statement, but still treated as outstanding deposits.
- 4.3 - Fixed Asset register provided for verification was not maintained properly .
- 4.4 -The pre test for 2006, 2007, 2008 reveals that both the general ledger balances and the balances as per trial balance were not tallied (paragraph 4.6 refers)

Recommendations:

- It is highly recommended that management should take appropriate action to find ways to speed up their collections.
- It's highly recommended that management has to ensure proper reconciliation for each balance;
- Management should ensure a proper reconciliation of customers' account and prompt settlement from customers.
- It is recommended that management should appropriately adjust this error accordingly.
- Management should monitor the reconciliation of all accounts on a monthly basis.
- It is recommended that the company should properly maintain a Fixed Asset Register. This is a very important register and has to be regularly reviewed to ensure its completeness *and accuracy.*

- Management should monitor the conduct of staff responsible for ensuring proper reconciliation for all accounts and to ensure that each balance is accurate before being disclosed in the financial statement.

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE TELEVISION KIRIBATI LIMITED FOR THE SIX MONTHS ENDED 31 DECEMBER 2006 AND 30th JUNE 2007 AND FOR THE YEAR ENDED 30 JUNE 2008

As required by Part VII of the Public Finance (Control and Audit) Ordinance 1976, I have completed the audit of the Television Kiribati Limited (Formerly Telecom Kiribati Limited) for the two semi-annual ended 31 December 2006 and 30 June 2007 and a year ended 30th June 2008 in accordance with the relevant statutory provisions and normally accepted Auditing Standards.

1. General

The Telecom Kiribati Limited was incorporated on the 16 December 1987. On 1 November 1990 the company handed over all telecommunications services to TSKL a join venture company by the Company of Kiribati and OTC International Limited (OTCI).

The ownership of the buildings and the communication plants were retained by the TKL. Major long-term assets were leased and minor long-term assets were sold to TSKL at net book value. All other assets and liabilities were retained by TKL.

On 1st July, 2005 the name changed from Telecom Kiribati Limited to Television Kiribati Limited.

2. Finance Performance

	30 June 2006 (6 months)	31 Dec 2006 (6 months)	30 June 2007 (6 months)	30 June 2008 (12 months)	Variance 31 Dec 06 %	V 30
HOE Sales	127,372.00	56,305.00	72,714.38	153,546.50	(55.79)	
Technical Division	21,654.00	59,017.00	25,908.53	161,768.80	172.55	
TV Division	38,579.00	76,985.00	83,159.01	90,352.36	99.55	
IT Division	39,204.00	53,400.00	65,559.06	128,936.70	36.21	
Total Income	**226,809.00**	**245,707.00**	**247,340.98**	**534,604.36**	8.33	
Depreciation	57,933.00	56,189.00	56,189.00	88,452.00	(3.01)	
Other expenses	295,039.00	462,493.00	253,827.00	618,231.73	56.76	
Total Expense	352,972.00	518,682.00	310,016.00	706,683.73	46.95	
Operating Profit/(Loss)	(126,163.00)	(272,975.00)	(62,675.02)	(172,079.37)	116.37	
PPI			1,125,982.00			(
Net Profit/(Loss)	**(126,163.00)**	**(272,975.00)**	**1,063,306.98**	**(172,079.37)**	116.37	(

The performance of the company for the last two (semi-annuals) balance sheet dates shows the operating losses of $272,975 and 62,675 for the periods ended 31 December 2006 and 30 June 2007 respectively. The main cause of the operating loss for 2006 relates to a significant increase in Sky Pacific Decoder rental of 1136% and Cost of sales of 403%. Further, a decrease in operating loss for 2007 is due to a significant decrease in Cost of sales by 98% and Sky Pacific decoder rental by 70%. The net profit for the six months ended June 2007 is resulted mainly from the prior year adjustment of $1,125,982.00.

The analysis for the six months ended June 2007 and a full year ended June 2008 could not be made as the periods involved are not comparable.

Television Kiribati Limited needs to provide understandable and comparable reports. Reasons for changes of accounting period should be disclosed in the financial statement.

Financial Position

The TKL current ratio for the six months ended 30/06/2007 decreased to 3.57:1 from 11.15:1 at 31/12/06 which was still considered an excessive current ratio. The drop is due to a decrease in Cash at bank by 21% and an increased in creditors of 172%. The liquidity ratio for 30/06/07 dropped to 2.37 from 8.05 at 31/12/06. However, it is still above the benchmark of 2:1 which indicates that TKL has the ability to pay off its obligations when they fall due. The company's profitability ratio generally looks better at year ended 30 June 2008.

3. Recommendation on Financial Performance & Financial Position

The company should seek to improve its financial performance through continuing in maintaining a sustainable increase in total income and at the same time decreasing its levels of expenditures where necessary. However, the company should also maintain its positive working capital and net worth in order to sustain secured position.

4. Audit Findings

4.1 Debtors

Observation

Audit check had noted that some of the debtors were dated back to 2006. Repayments were slow since the Ministry of Finance has ceased deducting Government employee's salary and transferring to TKL accounts. This change has caused a delay in the repayment from customers as they have to make settlement in person.

Recommendation

It is highly recommended that management should take appropriate action to find ways to expedite their collection.

Agreed Action/Management Response

The Accountant had agreed that some of their debtors had reliable and some are not to make recovery. Management had issued guidance advising that customers who are not made repayment promptly would return the items. However the accountant said that quite a few customers have paying full responsibility to make their payment based on their agreement.

4.2 Cash at Bank (Un-presented Cheques) $9024.26

Observation

Audit check revealed that the total cheques amounted to $9,024.26 still remain outstanding from the previous years (2006, 2007, and 2008)

Recommendation

It is highly recommended that management should appropriately review these cheques and write back to the profit and loss account if necessary.

Agreed Action/Management Response

The Management has confirmed that this outstanding cheques are from Telecommunication Kiribati Limited account and need to be written off and have theme ready for the next audit.

4.2.1 Deposit not yet credited $13,286.35(Outstanding Deposit)

Observation

The audit had query over the total amount of $13,286.35 stated as outstanding deposit when it had appeared in the Bank statement.

Recommendation

Management should ensure that regular bank reconciliation are being performed and reviewed and the account should be adjusted.

Agreed Action/Management Response

The outstanding deposit results from the double posting. Management had agreed that this outstanding deposit should be reversed and adjusted accordingly.

4.3 Fixed Asset

Observation

The fixed assets balance as per Trial balance does not tally with fixed assets balance disclosed in the Draft account. It was also noted that Fixed Asset register had not been maintained, but Fixed Asset Schedule was being used as F/Asset register. The Fixed Assets Schedule and Fixed Assets Register serve distinct purposes.

Recommendation

It is recommended that the company should open up a Fixed Asset Register. This is a very important register as it shows all details of the assets and has to be regularly reviewed to ensure its completeness and accuracy.

Agreed Action/Management

Management had agreed on the audit finding. The difference was caused by adopting the new accounting package and need to be adjusted.

4.4 Preliminary test 2006, 2007, 2008

Observation

The preliminary test for the above years had been completed and notes some of the discrepancies balance between the General Ledger, Trial Balance and Draft Account.

Recommendation

Management should commit full responsibility to conduct proper reconciliation for all the account to ensure that each balance must be accurate before disclosing in the financial statement. The variances should be reviewed and adjust the accounts accordingly.

Agreed Action/Management

Management informs the audit team that the main cause of the difference to some of the account affected by the new accounting package. Also some of the staff are not quite familiar to operate the new system and may result in mis-posting. Management mentioned that they will try to move forward to amend the 2009 account. The account has to be adjusted.

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Scope

I have audited the accounts of the Telecom Kiribati Limited for the two six months ended 31 December 2006 and 30th June 2007 and a year ended 30 June 2008.

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 misstatements. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the accounts 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 Standards 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.

Audit Opinion

In my opinion the financial statements of the Telecom Kiribati Limited are properly drawn up so as to:

(a) present fairly the Company's affairs as at six months ended 31 December 2006 and 30 June 2007 and as at 30 June 2008, its results and cash flow for the year ended on those dates;
(b) comply with the provisions of Part VII of the Public Finance (Control and Audit) Ordinance 1976 and the Company Ordinance; and
(c) Comply with other mandatory professional reporting requirements.

Raimon Taake
Auditor General
KIRIBATI NATIONAL AUDIT OFFICE **August 2009**