

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF



**Kiribati National Shipping Line Limited
For the year ended 31st December 2018-2019**

**Kiribati Audit Office
April 2021**

KIRIBATI AUDIT OFFICE

P.O BOX 63
Bairiki, Tarawa
Kiribati



Tel1: (686)7 5021118
Tel2: (686)7 5021335
Email: support@kao.gov.ki

Audit for an impact for the public

INDEPENDENT AUDITOR'S REPORT

**To the Readers of
Kiribati National Shipping Line Ltd Financial Statements
For the years ended 31 December 2018 & 2019**

I have audited the Financial Statements of Kiribati National Shipping Line Ltd (KNSL) for the years ended 31st December 2018 & 2019 as required under sec 114 (2) of the Constitution, Part VII, Sec 42(4) of the Public Finances (Control and Audit) 1981 and Sec 22(1) of the Kiribati Audit Act, 2017. The Financial Statements comprise of the following:

- Statement of Financial Performance
- Statement of Financial Position
- Statement of Cash Flow
- Notes to the Accounts

Disclaimer of Opinion

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer Opinion:

1. BROUGHT FORWARD BALANCES FROM FY 2017 – DISCLAIMER AUDIT REPORT

- We note that the opening balances of the 2018 financial accounts were taken from the closing balances of the 2017 financial account, which we have confirmed to have significant variances, hence the balances were inaccurate and not reliable.

2. CASH AND CASH EQUIVALENT 2018/2019

- Bank Reconciliation was not reviewed, signed, and approved by the Management and senior accountant for the years 2018 and 2019.
- We note variances between the GL 31/12/19 and Accounting Premier on the B/Reconciliation. Refer to Table 1.1 & 1.2 for further details.

Table 1.1: 2019 Cash & Cash Equivalents			
Date	GL 2019	Accounting Premier amt19 on B/Reconciliation	GL19 VS Accounting Premier B/reconciliation.
31/01/2019	48,137.69	48,285.49	147.80
31/07/2019	16,122.47	15,742.47	380.00
31/12/2019	57,485.79	59,108.08	1,622.29

Table 1.2: 2018 Cash & Cash Equivalents			
Date	GL 2018	Accounting Premier amt19 on B/Reconciliation	Var between GL18 and Accounting Premier amt18 on B/Reconciliation
28/02/18	9,169.68	10,094.88	925.20
31/03/18	49,593.31	100,239.42	50,645.61
30/04/18	28,400.92	27,462.12	938.80
31/05/18	42,647.45	41,708.65	938.80
30/06/18	9,543.06	10,445.44	902.38
30/11/18	248,619.14	249,614.83	21,737.00
31/12/18	102,286.13	104,930.17	2644.04

- The bank confirmation was not available for audit purposes.

3. CHARTER DIVERSION

- No supporting documents for invoice number: 0000252 (FY 2018) under the Charter Diversion.

4. RECEIVABLES

- We note a variance of \$43,788.17 when comparing the Financial Statement and General Ledger for FY 2019, which raised doubts on substantiating the balance of receivables as per reported in Financial Statements 2019.

5. FIXED ASSETS

- The Fixed Assets Register (FAR) was not maintained.
- The physical counting of KNSL assets was not done at the end of each fiscal year.
- There was no evidence to prove the handing over of LC Linnix from the Government to KNSL.
- There was no documentation on the disposal of vessels as per reflected in the FS 2018 valued to \$1,602,900.00.
- The below receipt numbers on the sale of FA in 2018 were not provided for audit verification and check:

1.	7 /6/18	0349	Choy F	1,500.00
2.	27/7/18	0427	John R	90.00

- There was a variance of -\$43,600 when comparing the Fixed Assets Schedule (additions) against the Cash outflow from Investing Activities in the Statement of Cash Flow 2018.

6. EXPENDITURES

- The Local Purchase Order (LPO) was not used when ordering goods or services, which could lead to uncontrolled purchases.
- There was no strong verification process for rations from the Accounts Department, to verify the Chief Cook's report before processing payment for further ration. Given that rations are sensitive items that can easily be stolen, it is important to have a well-established control in place such as a verified report.

- The following payment vouchers with a total value of \$5,832.10 were missing from the PV box file, and still could not be provided:

	Date	PV #	Amount
1.	12/18/19	739/19	3,791.80
2.	11/19/19	662/19	2,040.30

7. EXCEPTIONAL ITEMS

- Due to unready availability of documentation, we were unable to verify and substantiate the amount of \$194k reported as a Provision for Doubtful Debts in the Exceptional Items 2019.
- Furthermore, we were still unsatisfied with the correct presentation of such account item, given that Provisions to Doubtful Debts are often reported directly underneath the Debtors account in the Balance Sheet.

8. HISTORICAL BALANCING

- We were unable to substantiate and verify the balance of \$28,835.52 in the Historical balancing account, given the documentation were not readily available.

9. PRIOR PERIOD ITEMS

- We could not verify the following JVs in the Prior Period Items due to untimely availability of required documentation:

- JV90/18	1/31/18	Trade debtors posting	\$389,847.04
- JV 90/18	"	"	\$12,955.67
- JV 133/18	12/31/18	Mis posting of PNO 1/18	\$47,078.05

10. STATEMENT OF CHANGES IN EQUITY

- No Statement of Changes in Equity was provided as part of the KNSL's submission of accounts, therefore the set of financial statements submitted was incomplete.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kiribati, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

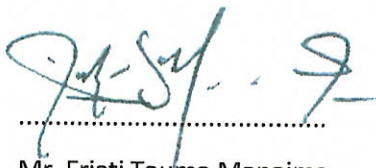
Report on other Legal and Regulatory Requirements

KNSL lodged its Financial Statements on 19th August 2020, therefore indicating KNSL's incompliance to Section 20 of the SOE Act 2013.

Independence

Section 114 (4) of the Kiribati Constitution stipulates that the Auditor General shall not be subject to the direction or control of any other person or authority.

Other than the audit, we have no relationship with or interest in KNSL.

A handwritten signature in blue ink, appearing to read 'Eriati Tauma Manaima', written over a dotted line.

Mr. Eriati Tauma Manaima
Auditor General

Date:28/04/2021



KIRIBATI NATIONAL SHIPPING LINE LIMITED

HEAD OFFICE
Betio, Tarawa
P.O. Box 495
Republic of Kiribati
Tel: +686 75126162 / 75126195

BRANCH OFFICE
Ronton, Kiribati
P.O. Box 1603
Republic of Kiribati
Tel: +686 73067106



☎ : www.knsl.com.ki ✉ : enquiry@knsl.com.ki 📠 : Kiribati Shipping
Please address all correspondence to the Chief Executive Officer

13 August, 2020

The Auditor General
Kiribati National Audit Office
Bairiki
Tarawa

Re: KNSL Annual Report 2018-19 Submission

Dear Sir/Madam,

I write to kindly request for your auditing schedule for KNSL Account for our planning purpose. Please find attached the copy of the Annual Report for 2018-2019.

Your kind assistance and mutual support is much appreciated. Looking forward to hearing from your good office.

Ko rabwa

Kauarerei Ititaake
For Chief Executive Officer

Kiribati National Shipping Ltd
Summary Profit & Loss Account
Year Ending 31/12/2019

	2019	2018	Movement
REVENUE			
Core Operations Revenue	2,311,075	2,320,789	(55,585)
Non-Core Revenue	69,688	74,401	(4,714)
Government Grant	100,000	136,000	(36,000)
REVENUE	2,480,763	2,531,190	(50,428)
EXPENSES			
Core Personnel Costs	994,938	895,832	(99,106)
Core Operating Expenses	1,242,078	1,124,065	(118,013)
Non Core Operating Expenses	147,334	149,715	2,381
EXPENSES	2,384,350	2,169,612	214,738
PROFIT BEFORE DEPRECIATION	96,413	361,579	(265,166)
Depreciation	533,915	509,478	(24,437)
OPERATING PROFIT	(437,502)	(147,899)	(289,603)
Exceptional Items	(357,605)	(901,478)	543,872
NET PROFIT/(LOSS)	(795,108)	(1,049,377)	254,269

Kiribati National Shipping Ltd
Profit & Loss Account
Year Ending 31/12/2019

	Notes	2019	2018	Movement
REVENUE				
Core Operations				
Pax Fare Out		136,307	96,275	35,107
Pax Fare In		48,675	56,708	(24,264)
Cargo Freight Out		515,049	644,337	(153,325)
Freezer Freight Out		3,346		3,346
Freezer Freight In		223		223
KSSL Xmas Branch Deposit		155,550	142,845	12,705
Cargo Freight In		36,990	14,649	21,663
Cargo Handling Out		99,823	92,116	7,707
Cargo Handling In		9,518	7,827	1,691
Copra Freight In		185,560	284,923	(99,363)
Copra Handling In		33,343	36,014	(2,671)
Charter/Diversion		1,081,581	944,495	137,086
Other Commissions		10		10
Offloading Heavy Equipment		5,100	600	4,500
Total Core Operations Revenue		2,311,075	2,320,789	(55,585)
Non Core Revenue				
Vehicle Hire			283	(283)
Welding Sales		8,513	3,820	4,692
Rental Container & Others		6,058	1,500	4,558
Rental Office		22,603	37,645	(15,042)
Commission for refund		1,637	6,226	(4,589)
Rental Electricity Charges		2,390	2,462	(62)
Warehouse Sales		2,702	7,019	(4,317)
Document Fee		2,727	2,575	152
Tools Box Sales Rev.			261	(261)
Other Rev		4,201	11,031	(6,830)
Asset Sales		1,940	1,590	350
Rent for Life raft		3,080		3,080
Floating Freight/Freight Out		202		202
Canteen Collection		13,636		13,636
Total Non-Core Revenue		69,688	74,401	(4,714)
Government Grant/Subsidy				
Gov't Subsidy				
CEO Salary and Allowances		100,000	136,000	(36,000)
Total Government Grant		100,000	136,000	(36,000)
TOTAL REVENUE		2,480,763	2,531,190	(96,299)
EXPENSES				
Core Personnel Costs				
Wages & Salaries		720,967	592,457	(128,510)
KPF Subsidy		54,319	53,014	(1,305)
Overtime			78,823	78,823
Leave Grant		112,500	78,175	(34,325)
Sea Going Allowance/Shift Allowances		30,201	9,629	(20,572)
Allowances (Shore based)		5,376	11,381	5,955
Leave Commutation		990		(990)
Housing Subsidy		586	736	151
CEO Salary		70,000	71,667	1,667
Total Core Personnel Costs		964,938	895,832	(99,106)
Core Operating Expenses				
Port Charges		28,232	28,717	1,486
Survey Charges		335	520	185
Fuel & Oil		737,096	639,911	(98,520)
Victualling/Ration		105,512	119,425	13,913
Repairs & Maint on Vessels		160,025	97,797	(62,228)

Kiribati National Shipping Ltd
Profit & Loss Account
Year Ending 31/12/2019

	Notes	2019	2018	Movement
Repairs & Maint - Motor Vehicles		3,385	5,639	2,254
Stevedoring		57,051	66,020	8,969
Cargo Claim		743	11,133	10,390
Spare Parts		45,905	89,712	43,807
Repair and Maintenance Office		18,380	17,962	(418)
Hire		16,243		(13,060)
Fuel for staff transport		9,329		(7,994)
LQ Aratoba Canteen		11,414		(11,414)
Cargo Freight Out Refund		25,831		(24,037)
Cargo Freight In Refund		678		(678)
Sea fare Refund		21,920		(21,920)
Total Core Operating Expenses		1,242,078	1,124,065	(76,302)
Non Core-Operating Expenses				
Cleaning Supplies		2,260	1,774	(486)
Printing & Stationery		6,772	8,164	1,392
Telecom Licence/CCK		921	2,864	1,943
Security Charges		2,707	4,560	1,852
Board Refreshment		3,551	3,082	(469)
Board Allowances		21,810	14,190	(7,620)
Local Travel		1,385	15,364	10,797
Housing Subsidy		1,087	792	(295)
BPA Charges		3,250	6,867	3,418
PUB Electricity		33,645	35,809	2,164
PUB-Fresh Water		9,843	4,915	(4,928)
Lawyer's Fee			10	10
Computer Supplies & Repairs		2,813	4,804	1,991
Telecom Charges		20,432	17,749	(2,683)
Toll Fare/Registration Fee		115	4,782	4,667
Training & Development		14,405		(777)
Management Entertainment		8,964	1,273	(7,691)
Bank & Cheques Charges		3,066	2,022	(1,046)
Duty Allowance		5,880		(5,880)
Annual Registration fee (Vessel)		4,827		(4,827)
Other Expenses			14,595	14,595
Total Non Core-Operating Expenses		147,334	149,715	5,541
TOTAL EXPENSES		2,389,412	2,169,612	(166,867)
PROFIT BEFORE DEPRECIATION		95,412	361,579	(265,166)
DEPRECIATION	4	593,915	609,478	(24,437)
OPERATING PROFIT		(437,503)	(147,899)	(289,603)
EXCEPTIONAL ITEMS				
Loss on Prior Period Items	1	(148,491)	(342,601)	194,110
Loss on Sale of Fixed Asset			(1,150)	1,150
Provision for Doubtful Debts	3	(194,115)		(194,115)
Loss on Disposal of Fixed Assets - LC Butimari	2		(881,595)	881,595
Insurance Claim - LC Linnix	2		119,736	(119,736)
Adjustment to Prior Year Depreciation			92,098	(92,098)
Income Tax Expense		(15,000)		(15,000)
Revenue b/f 2017			112,034	(112,034)
TOTAL OTHER INCOME & EXPENDITURE		(357,605)	(901,478)	543,872
NET PROFIT/(LOSS)		(795,108)	(1,049,377)	254,269

Kiribati National Shipping Ltd
Balance Sheet - Summary
As at 31/12/2019

	Notes	2019	2018	Movement
Current Assets:				
Cash & Cash Equivalent		58,986	107,040	(48,054)
Trade Receivables		508,442	419,682	88,760
Provision for Doubtful Debts		(194,115)		
Other Current Assets		13,958	10,469	3,489
Total Current Assets		387,271	537,191	44,195
Less Current Liabilities		368,594	377,222	8,628
Working Capital		18,677	159,969	52,823
Fixed Assets		3,888,263	4,542,079	(653,816)
Net Worth		3,906,940	4,702,048	(600,993)
Represented by:				
Shareholders' Equity:				
Retained Earnings		4,702,048	5,751,425	(1,049,377)
Current Year Earnings		(795,108)	(1,049,377)	254,269
Total Shareholders' Equity		3,906,940	4,702,048	(795,108)

CEO
 Capt. John Rouns 13.8.20

Board Chairman

Kiribati National Shipping Ltd
Balance Sheet - Detail
As at 31/12/2019

	Notes	2019	2018	Movement
Cash & Cash Equivalent				
Petty Cash Imprest		1,500	1,500	
Cash at Bank		57,486	104,930	(47,444)
MFED VAT Deduction			610	(610)
Total Cash & Cash Equivalent		58,986	107,040	(48,054)
Receivables				
Trade Debtors		508,442	419,682	88,760
Less Prov. for Doubtful Debts		(194,115)		(194,115)
Total Receivables		314,327	419,682	(105,355)
Other Current Assets				
Staff Imprest		5,502		5,502
Master Imprest		1,790	2,690	(900)
Sundry Debtors		6,666	7,779	(1,113)
Total Other Current Assets		13,958	10,469	3,489
Total Current Assets		387,271	537,191	(149,920)
Current Liabilities				
Staff Tax Payable		95,697	91,035	(4,662)
KPF Payable		31,374	30,765	(609)
Other Payroll Liabilities		1,986	4,413	2,427
Audit Fees		29,000	29,000	
Bounced Cheques to KOIL		129,688	129,688	
Reireiti Court Case			13,472	13,472
KPA - Outstanding Invoices		78,849	78,849	
Trade Creditors		2,000		(2,000)
Total Current Liabilities		368,594	377,222	8,628
Working Capital		18,677	159,969	(141,292)
Fixed Assets (NBV)				
Furniture & Fittings		24,836	32,810	(7,974)
Land & Buildings		30,368	57,253	(26,885)
Plant & Machinery		60,961	45,334	15,627
Vessels		3,739,255	4,308,538	(569,283)
Motor Vehicles		22,266	48,690	(26,425)
Office Equipment		10,578	18,275	(7,697)
Tools			31,179	(31,179)
Total Fixed Assets		3,888,263	4,542,079	(653,816)
Net Worth		3,906,940	4,702,048	(795,108)
Represented by:				
Shareholders' Equity:				
Retained Earnings		4,702,048	5,751,425	(1,049,377)
Current Year Earnings		(795,108)	(1,049,377)	254,269
Total Shareholders' Equity		3,906,940	4,702,048	(795,108)

KIRIBATI NATIONAL SHIPPING LTD
CONSOLIDATED CASH FLOW
For the year ended 31st December 2019

	2019
Cash flow from operating activities	
Receipts from customers	2,216,530
Receipt from Insurances	119,736
Payments to employees	(1,220,627)
Payments to suppliers	(1,135,103)
	(19,463)
Cash flow from investing activities	
Purchase of fixed assets	(28,591)
	(28,591)
Net Cash Flow	(48,054)
Cash and Bank Balances - Beginning	107,040
Cash and Bank Balances - Ending	58,986
Note A - Details of Cash and Bank Balances	
Cash Float	1,500
Bank Account No.1 - Tarawa	57,486
	58,986
Note B - Reconciliation of cash flow from operations	
Net Profit / loss for the period	(795,108)
Depreciation charge for the period	533,915
Decrease/(Increase) in Debtors	149,920
Increase/(Decrease) in Creditors	(8,628)
Changes/Adjustment to Fixed Assets	119,899
Changes/Adjustment to Creditors	(19,461)
	(19,463)

KIRIBATI NATIONAL SHIPPING LTD
POLICIES FOLLOWED IN FORMING THE ACCOUNTS
FOR THE PERIOD ENDING 31ST DECEMBER 2019

The Company

The forerunner of Kiribati National Shipping Line Ltd (KNSL) was the Kiribati Shipping Services Limited incorporated on the 9th of July 1990. Kiribati National Shipping Line Ltd (KNSL) was registered on 10th August 2018 with the primary objective of providing affordable shipping transportation to the

Principal Accounting policies

The Financial Statements are prepared under the historical cost convention and with the International Accounting Standards. The following is a summary of the policies used by the Company:

Depreciation

Depreciation is calculated to write off the cost of long term assets on straight line their expected useful lives. The rates of depreciation and useful lives are as follows:

(i) Office Equipment	20%
(ii) Furniture & Fittings	10%
(iii) Motor Vehicles	20%
(iv) Buildings	5%
(v) Vessels	10%
(vi) Plant & Machinery	10%

Foreign Currencies

Assets and Liabilities expressed in foreign currencies are converted into Australian rate of exchange ruling at the end of the financial year.

Aid Items

Items received in aid have been capitalised under the Assets Grant Aid and released to profit and loss at the rate of an applicable depreciation charge.

Provision for doubtful debts

Provision has been made in the 2019 accounts (See Note 3 to the Accounts)

Note 1 Gain/Loss on Prior Period Items		
	2019	2018
Write off of Tools	31,179	
Adjustment for removal of Scrap value in Depn Calculation to Dec 2018	115,812	
Adjustment of Loss on Sales of Motor Vehicle misallocated	1,500	
To adjust Trade debtors posting of opening balances		389,847
Other		(47,246)
Total LPPi	148,491	342,601

Note 2 Loss on Disposal of Fixed Asset		
	2019	2018
Disposal LC Butimari:		
Cost		1,602,900
Depreciation		(881,595)
Loss on Disposal - book value		721,305

Note 3 Trade Debtors and Provision for Doubtful Debts				
	Trade Debtors			Provision
	2019	2018	Movement	2019
Kiribati Copra	202,999	159,412	43,587	(151,006)
KOIL	157,614	155,638	1,976	(10,157)
Government	81,379	52,642	28,737	(2,122)
DC Trading	6,891	6,891		(6,891)
History Flight	3,205	2,035	1,170	
Keangnimwakin Shipping Services	4,355	4,355		
Lyke It Trd	5,616	5,616		(3,668)
Maneaba n Maungatabu	5,824	5,824		(5,824)
Reitakim Store	13,045	13,045		(13,045)
Remia Trading	3,231	28	3,203	
Slim Price	2,974	27	2,947	
TOKS Shipping Line	2,749	2,749		
Other	18,561	11,421	7,140	(1,402)
Total	508,442	419,682	88,760	(194,115)

NB:

- The majority of the provision relates to debt outstanding for years before 2015
- KOIL provision made after deducting amounts owed by KNSL to KOIL (129,688)

Note 4

KNSL - FIXED ASSET SCHEDULE

	Land and Buildings	Vessels	Motor Vehicles	Plant & Machinery	Furniture and Fittings	Office Equipment	Tools	Total Fixed Assets
COST								
Balance @ 31/12/17	211,500	6,467,558	191,790	88,635	55,743	38,208	31,179	7,084,613
2018								
Additions	1,058	99,596						100,654
Disposals		(1,602,900)						(1,602,900)
Balance @ 31/12/18	212,558	4,964,254	191,790	88,635	55,743	38,208	31,179	5,582,367
2019								
Additions				28,591				28,591
Disposals								
Adjustments							(31,179)	(31,179)
Balance @ 31/12/19	212,558	4,964,254	191,790	117,226	55,743	38,208		5,579,779

DEPRECIATION								
Balance @ 31/12/17	146,640	1,141,989	136,763	40,458	23,057	17,100		1,506,007
2018								
Depreciation Charged		446,783	34,522	7,974	4,657	6,877		509,478
Disposals	8,665	(881,595)						(881,595)
Adjustment 1		(51,460)	(26,685)	(5,131)	(4,781)	(4,044)		(92,101)
Adjustment 2			(1,500)					(1,500)
Balance @ 31/12/18	155,305	655,717	143,100	43,301	22,933	19,933		1,040,289
2019								
Depreciation Charged		496,425	8,858	8,153	5,369	5,483		533,916
Disposals								
Adjustment	17,257	72,858	17,567	4,811	2,605	2,213		117,311
Balance @ 31/12/19	182,190	1,225,000	169,525	56,265	30,907	27,629		1,691,516

NET BOOK VALUE								
31-12-18	57,253	4,308,537	48,690	45,334	32,810	18,275	31,179	4,542,078
31-12-19	30,368	3,739,254	22,265	60,961	24,836	10,579		3,888,263