



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2018 audit

March 2019

*To help the public service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2018 financial statements of the Auditors Oversight Authority ("AOA"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Auditors Oversight Authority ("AOA") in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - auditors responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for the year ended 31 December 2018 that we consider are worthy of drawing to your attention, so that you can consider them before the financial statements are approved and signed.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the *Freedom of Information Law (2018 Revision)* it is the policy of the Office of the Auditor General to release all audit reports upon request.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

6. While we have no responsibility to perform any work on other information, including forward looking statements, in documents containing audited financial statements, we read the information contained in the Auditors Oversight Authority 2018 annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Auditors Oversight Authority. We have reviewed the Authority's Annual Report for the year ended 31 December 2018 containing the Auditors Oversight Authority audited financial statements and found no material inconsistencies to report.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the chairman of the Board of Directors dated 28 September 2018, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We issued an unmodified auditor's report on the financial statements.
9. A summary of corrected audit misstatements is included in Appendix I.
10. As part of the completion of our audit we seek written representations from management on aspects of the accounts, judgments and estimates made. We have requested that management provide us with representations in respect of our financial statement audit, which they have provided to us in a letter dated 11 March 2019.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Auditors Oversight Authority significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Auditors Oversight Authority to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition we are not aware of any new or controversial accounting practices reflected in the Auditors Oversight Authority financial statements.
12. Details of any significant findings from the audit are included in **Appendix 2** and any reiterations from prior year are included in **Appendix 3**, along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Auditors Oversight Authority's ability to continue as a going concern.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

15. We identified a number of significant matters relating to internal controls as part of our audit.
16. Details of the material weaknesses in internal controls and other significant findings are included in **Appendix 2 and 3** along with management's response.

FRAUD OR ILLEGAL ACTS

17. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws and regulations rests with both those charged with governance of the entity and with management. It is important that management with the oversight of those charged with governance place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the entity's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.
18. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.
19. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

20. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

21. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

22. No other significant matters were raised during the audit.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Auditors Oversight Authority for their help and assistance during the audit of this year's financial statements.
24. If you would like to discuss the results of our audit or any other matters in further details please feel free to call the audit manager, Mr. Winston Sobers at (345) 244-3207 or me at (345) 244-3213.

Yours sincerely,



Garnet Harrison, CPA, CA
Acting Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTMENTS DURING THE PERIOD

| Description | (G/L) Account # | Debit | Credit |
|--|-----------------|----------|----------|
| Audit Office Adjustment | | | |
| Inspection Costs | 54261 | 3,114.00 | |
| Inspection Fees | 42137 | | 3,114.00 |
| Gross up in the income statement of travel expenses initially treated by AOA as recoverable disbursements. | | | |

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

| Observation | Risk/Implication and Recommendation | Management Response |
|--|---|--|
| <p><u>Non-compliance with The Public Authorities Law, 2017 ("PAL")</u></p> <p>During our audit, we noted instances of non-compliance with PAL as detailed below:</p> <ul style="list-style-type: none"> Section 7 (2) of PAL requires a public authority to operate as a profitable business and efficient business and contribute to the revenue of core government or, at least, break even in its operations." <p>We noted that AOA budgeted for deficits of \$56k and \$31k for the 2018 and 2019 financial years respectively.</p> <ul style="list-style-type: none"> Section 42 of The Public Authorities Law, 2017 ("PAL") states that a public authority shall operate an open and fair appointment process for all staff. <p>We noted that AOA hired a Financial & Administrative Manager right after year end without advertising or producing a business case for the recruitment. Per the Board minutes</p> | <p><u>Risk/ Implication</u></p> <p>Non compliance with laws could lead to penalties and/or reputational damage to the AOA.</p> <p><u>Recommendation</u></p> <p>The Authority should budget to make a profit or, at least, break even in its operations.</p> <p>AOA should comply with the requirements of PAL regarding open and fair processes for appointment of staff. In addition, a business case should be produced justifying the appointment of new hires e.g. with regard to the financial impact of the recruitment on the AOA.</p> | <p>Section 7 (2): The AOA does conduct its affairs in a responsible financial manner as required by the PAL. As far as we are aware, the requirement at S7(2) of the PAL does not necessarily apply to discrete calendar years. Furthermore, the fact that the AOA may budget for a deficit in a particular period does not mean that we are not in compliance, particularly because we take into account the cash resources on hand in determining how much contribution we think we will need from Government to operate.</p> <p>Point noted but we think this is a matter of how the requirements of the PAL are interpreted.:</p> <p>S42 (1)(c) of the PAL says a public authority</p> <p>"may, if necessary, publicly advertise in local or international media or both, a vacant position in such manner as would enable suitably qualified persons to apply for the vacant position."</p> <p>It was not necessary to so advertise and we had no other employees to whom the post</p> |

| Observation | Risk/Implication and Recommendation | Management Response |
|--|--|---|
| for the meeting held on 10 January 2019, the Board did not see the need to advertise the position. This is of importance to raise in the current year due to the sensitivity of the matter in the public service. | | <p>should or could have been advertized internally.</p> <p>We believe that a business case was made. The matter was discussed at length at several board meetings over a sustained period of time and all board members recognized the need to have a locally based staff member to support the MD (who is based in Canada). We tried to effect this through using an agency person in the past and this did not work so we resolved to directly hire a part time person. The person who was appointed was recommended to us at the time we were deciding to recruit such a person.</p> |
| <p><u>Authority's policy on independence</u></p> <p>According to Section 6 (2) (d) of the <i>Auditors Oversight Law (2017 Revision)</i>, not more than 3 directors (including the Chairman and Deputy Chairman) shall be public accountants retired from practice for not less than the period of time determined by Cabinet. This period has not been defined by Cabinet or the AOA Law.</p> | <p><u>Risk/ Implication</u></p> <p>Given that there is no evidence of a well-defined policy, the AOA Directors may not be independent of the firms it regulates.</p> <p><u>Recommendation</u></p> <p>The Authority should obtain from Cabinet formally documenting its "cool off" requirement in such a way that it is clear and leaves no room for ambiguity.</p> | Agreed. |
| <p><u>Backing up of data</u></p> <p>The Authority's books and records are stored on the Managing Director's computer. However, the Authority has not instituted proper safeguarding and back up practices.</p> | <p><u>Risk/ Implication</u></p> <p>The lack of proper storing and safeguarding of data exposes the Authority to risk of data loss.</p> <p><u>Recommendation</u></p> <p>AOA should establish measures to ensure data is backed up regularly and in a separate location to the</p> | <p>We are in the process of overhauling the file storage and back up processes.</p> <p>The records held by the MD are presently backed up to a separate hard drive (My Book) which is stored separately from the computer</p> |

| Observation | Risk/Implication and Recommendation | Management Response |
|--|--|--|
| | original data files. | on which the original records are maintained. The records held by the Deputy Chair (general ledger and related accounting records), are presently backed up to a separate thumb drive which is stored separately from the computer on which the original records are maintained. |
| <p><u>No sign off of board minutes</u></p> <p>During our review, we noted that there was no evidence of formal sign off for minutes of Board meetings held during the year.</p> | <p><u>Risk/ Implication</u> Board minutes are subject to alteration if they are not formally signed off following approval.</p> <p><u>Recommendation</u> AOA should strive to have all of their minutes signed off as part of the approval process.</p> | Agreed |
| <p><u>Clarity in Purchase Agreement</u></p> <p>The Purchase Agreement between the Authority and Cabinet is vague and does not clearly describe what outputs the Authority is supposed to achieve. The “output measures” outlined in the Agreement are considered inputs, namely number of hours of activity. It does not reflect the outputs to be delivered or the outcomes. Additionally, the Authority does not have a formal system to accurately track time spent on jobs.</p> | <p><u>Risk/ Implication</u> Without a well-defined Purchase Agreement or time keeping system in place, it is becomes harder to objectively gauge the effectiveness of the AOA and hold the Authority accountable for its performance.</p> <p><u>Recommendation</u> AOA and Cabinet should establish a Purchase Agreement with well-defined outputs that are measurable.</p> <p>AOA should set up a system to track hours worked since this measure of input is an integral part of the business.</p> | <p>We would not agree that tracking hours spent on various aspects of the business is a meaningful measure of the effectiveness of the AOA. However, we will look into introducing a more rigorous method of tracking hours to improve accountability.</p> <p>We will also consider what, if any, more meaningful measures of effectiveness might be included in the Purchase Agreement.</p> |

APPENDIX 3 – REITERATIONS FROM PRIOR YEAR

| Observation | Risk/Implication and Recommendation | Management Response |
|--|--|--|
| <p><u>Managing Director's performance assessment</u></p> <p>There was no formal documented performance agreement or assessment signed between the Managing Director ("MD") and the Board, and the performance review process remained informal.</p> | <p><u>Risk/ Implication</u></p> <p>Without a formally documented performance agreement, the Board may not be able to objectively assess and demonstrate its assessment of the MD's performance.</p> <p><u>Recommendation</u></p> <p>A formal documented performance agreement and assessment process should be agreed with the MD at the beginning of each year. The agreement should subsequently form the basis of the Board's evaluation of the MD's performance.</p> | <p>The Managing Director's contract includes, as an appendix, a full job description which sets out, inter alia, the performance expectations.</p> <p>His performance is formally reviewed by the Board annually. However, we agree that more formal documentation of the mapping of performance to expectations should be introduced.</p> |