



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2020 audit

June 2021

*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 2020 financial statements of the Auditors Oversight Authority (the “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 2020 that we consider are worthy of drawing to your attention.
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 Act (2020 Revision) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

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 signed by management on 5 October 2020 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 audit work on other information, including forward looking statements, containing audited financial statements, we will read the other information contained in the Authority's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Authority. We have not reviewed any other documents containing the Authority's audited financial statements.

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 and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION

8. We have issued an unmodified auditor's report on the 2020 financial statements.
9. There were no uncorrected misstatements or adjustment arising from the audit.
10. As part of the completion of our audit we obtained written representations from management on aspects of the accounts and judgments and estimates made. These representations were provided to us on 26 March 2021.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the (“AOA”) significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the (“AOA”) to make accounting estimates and judgments about accounting policies and financial statement disclosures.

We are, however, not aware of any new or controversial accounting practices reflected in the (“AOA”) financial statements.

12. Details of any significant findings from the audit are included in Appendix 1 and any reiterations from prior year are included in Appendix 2, 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.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified the following matters relating to internal controls as part of our audit:

- Compliance with the Public Authorities Act (2020 Revision)
- Clarity of Purchase Agreement

Details are included in Appendix 1 and 2 along with management’s response.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts 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 AOA'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.
17. 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.
18. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

22. 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.

Yours sincerely,



Patrick Smith, CPA, CFE
Acting Auditor General

APPENDIX 1 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><u>Compliance with the Public Authorities Act (2020 Revision)</u></p> <p>According to the Public Authorities Act (2020 Revision) Section 8 (1), a public authority shall have a board, by whatever name called, consisting of a chairperson and not less than four other members. The AOA has a board with a Chairperson, but is down one board member as the Deputy Chairman continues to act as MD and no replacement has been found.</p>	<p>Risk/Implication:</p> <p>Non-compliance with legislation could lead to penalties and/or reputational damage to the AOA.</p> <p>Recommendation:</p> <p>AOA should engage with Cabinet on how they can remediate the matter as they are the ones in charge of appointing board members.</p>	<p>The Ministry is aware of the issue, and has been for many months.</p> <p>The AOA has had extended email correspondence with them over the past year and raised it with the Minister in a face to face meeting on 19 May 2021.</p> <p>We are currently running advertisements on behalf of Government and the position is advertised on the AOA website & Government staff portal.</p>	

APPENDIX 2 – REITERATIONS FROM PRIOR YEAR

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><u>Clarity in Purchase Agreement</u></p> <p>The Purchase Agreement between the Authority and Cabinet is still vague and did not clearly describe what outputs AOA was supposed to achieve. The “output measures” outlined in the Agreement are considered inputs (i.e. number of hours of activity). It does not reflect the outputs/outcomes to be delivered.</p> <p>In relation to the revenue recognition of outputs, there was a weakness observed regarding the revenue recognition policy and the manner in which it was applied in the measurement of revenue. There is currently a disconnect between the measures used in the purchase agreement and the actual billing method being employed.</p>	<p>Risk/Implication:</p> <p>Without a well-defined Purchase Agreement, it becomes harder to objectively gauge the effectiveness of the Authority and hold it accountable for its performance. In relation to the recognition of revenue it creates a subjective basis for determining how revenue is earned if the deliverables are not well defined, agreed upon and measured upfront.</p> <p>Recommendation:</p> <p>AOA should work with the Ministry and Cabinet to establish a Purchase Agreement with well-defined outputs that are measurable and can better reflect the outcomes they want to achieve.</p>	<p>We do not accept that there is any weakness in the design or application of the AOA revenue recognition policy. It is applied consistently as explained in the financial statement foot notes.</p> <p>We accept, as we did last year, that the Purchase Agreement needs greater clarity. However, when we discussed this with Government, they advised us to not seek to amend the 2020 terms but to revise them as part of the 2021 and 2022 budgeting process. This seems to be a reasonable approach which we will adopt.</p>	