



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2022 audit

May 2023

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spend wisely*

TABLE OF CONTENTS

INTRODUCTION.....	4
AUDITOR’S RESPONSIBILITIES IN RELATION TO THE AUDIT	4
Auditor’s responsibility under International Standards on Auditing	4
Responsibilities of Management and Those Charged With Governance.....	5
Other information in documents containing audited financial statements:	5
CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT	5
AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION	5
SIGNIFICANT FINDINGS FROM THE AUDIT	6
Significant accounting practices.....	6
Management’s judgments and accounting estimates	6
Going concern doubts	6
Significant and other deficiencies in internal control	6
Fraud or illegal acts	6
Significant difficulties encountered during the course of our audit	7
Disagreements with management	7
Any other significant matters.....	7
ACKNOWLEDGEMENTS	7
APPENDIX 1 – OTHER SIGNIFICANT MATTERS.....	8

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2022 financial statements of the Auditors Oversight Authority (the “Authority”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Authority in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - Auditor’s 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 2022 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 (2021 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.

AUDITOR’S 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 29 September 2022 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 2022 financial statements.
9. There were no corrected audit adjustments made to the financial statements. In addition, there were no uncorrected misstatement 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 27 March 2023.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Authority 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 Authority's financial statements.
12. Details of any significant findings from the audit are included in Appendix 1 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 Authority's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We did not identify any deficiencies in internal controls relating to the Authority's governance.

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 Authority'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 control 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. The re-appointment of certain Board members has not been formalized by Cabinet and we have made a related recommendation in Appendix 1. The appendix also includes management's response. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Authority for their help and assistance during the audit of this year's financial statements.

Yours sincerely,



Winston Sobers, FCCA, CFE
Acting Auditor General

APPENDIX 1 – OTHER SIGNIFICANT MATTERS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Governance</p> <p>The Public Authorities Act (2020) states the following:</p> <p>Section 9 (1):</p> <p>(a) board members of a public authority shall be appointed by the Cabinet;</p> <p>(c) one of the appointed board members shall be appointed by the Cabinet to be the chairperson of the Board; and</p> <p>Section 11 (1):</p> <p>(1) board members shall hold and vacate office in accordance with the terms of their appointment, subject to subsection (2) to (4) and the provisions of any other relevant law.</p> <p>In addition, section 6(2) of the Auditors Oversight Act (2020 Revision) states that the Board shall have not more than three other directors who shall be public accountants retired from the practice of their profession. The appointments for the two members of the Authority's Board who meet this criterion</p>	<p>Risks / implications</p> <p>The Authority is not in compliance with sections 9(1)(a), 9(1)(c) and (11)(1) of the Public Authorities Act (2020 Revision). In addition, the Authority is not in compliance with section 6(2) of the Auditors Oversight Act (2020 Revision).</p> <p>Recommendation</p> <p>The Ministry of Financial Services and Commerce should work with the Cabinet to finalize the Cabinet's appointments to the Authority's Board of Directors as soon as possible.</p>	<p>Response from the Authority:</p> <p>The AOA Board has been in extended communication with the Ministry on this matter. The Ministry advised on August 3, 2022 that it had approved the reappointment of Messrs. Mason and Wigney. The Board understands that Cabinet declined to formalize the reappointments pending a decision on who would be appointed Deputy Chairman.</p> <p>Once the Board is formally re-constituted all actions of the Board since May 2022, as reflected in the Board meeting minutes, will be reviewed and specifically ratified by the new Board.</p> <p>The AOA has taken legal advice which, <i>inter alia</i>, will assist it in complying with the requirements of the Auditors Oversight Act (2020</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>The two board members serving on the Authority's Board are still being paid quarterly fees without an enforced term of appointment.</p> <p>The current Chairman has not been designated by Cabinet.</p> <p>In addition, key decisions were made in 2022 without a fully approved Board. The Authority's new Board of Directors will need to ratify these decisions. For example:</p> <ul style="list-style-type: none"> • The Board renewed the Acting Managing Director's contract for another six months in September 2022. • The Board awarded cost-of-living salary adjustments to staff in 2022. 		<p>Revision) and the Public Authorities Act (2020).</p> <p><u>Response from the Ministry of Financial Services & Commerce:</u></p> <p>Given the Public Authorities Act requirements for the number of private sector appointments, there has been an issue with identifying one additional member for the board. While there have been significant challenges in identifying a suitable additional board member, one has been identified. The full board is expected to be appointed in May 2023.</p>	