



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2023 audit

April 2024

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spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2023 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 2023 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 2023 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 have 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 2023 financial statements.
9. A summary of adjustments made to the financial statements is attached in Appendix 1. There were no uncorrected audit misstatements.
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 22 March 2024.

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 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 Authority's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We did not identify any significant deficiencies in internal control.

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. In addition, the Authority does not have a written back-up policy. We have made related recommendations in Appendix 2. 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
Acting Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES

Date	Name	Debit (\$)	Credit (\$)
12/31/2023	Accruals: Other	1,605.41	
12/31/2023	Other Operating Expenses: Purchase-Services: Inspection fees		1,605.41
	To adjust for over accrual of inspection fees		
12/31/2023	Other operating expenses: Donations	798.18	
12/31/2023	Accounts payable		798.18
	To adjust for donation paid in 2023		
12/31/2023	Government of the Cayman Islands	807.23	
12/31/2023	Unearned Revenue		807.23
	To adjust for unearned revenue		

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. The appointments for some members of the Authority’s Board of Directors have expired (<u>re-iteration from prior year</u>)</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 subsections (2) to (4) and the provisions of any other relevant law.</p>	<p><u>Risks / implications</u></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><u>Recommendation</u></p> <p>The Authority should continue to engage the Ministry of Financial Services and Commerce to finalise the Cabinet’s appointments to the Authority’s Board of Directors as soon as possible.</p>	<p>AOA response:</p> <p>The AOA Board is well aware of this issue and has been in extended communication with the Ministry on the matter. The principal cause of the problem is that the PAA S9 (6)(a) states that “the membership of a board shall not be comprised of more than forty percent public or civil servants” whereas the Auditors Oversight Authority Act specifically requires that the Financial Secretary and the Auditor General (or their designates) shall be board members, as shall the Managing Director. This means that the number of “civil servant” board members is 3. It follows that to comply with the PAA, the AOA Board must include 5 non-“civil servant” members (so that 40% threshold in the PAA is complied</p>	<p>Summer 2024</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<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.</p> <p>However, the appointments for the two members of the Authority’s Board of Directors who meet this criterion expired on May 3rd 2022, and the Cabinet has not renewed their appointments.</p> <p>The two board members serving on the Authority’s Board are still being paid quarterly fees without an enforced term of appointment, and the Cabinet has not designated the current Chairman.</p> <p>Further, key decisions were made in 2023 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 		<p>with). However, the Auditors Oversight Authority Act (S6(2)(d) states that not more than 3 such directors shall be appointed.</p> <p>With appropriate legal advice, the AOA has tried to find practical “work arounds” to this conflict in legislation but none have been acceptable to Government.</p> <p>Accordingly, the process to change the Auditors Oversight Authority Act has begun and it is hoped that the revisions will be passed in early summer 2024.</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. Every set of minutes for every meeting held since May 2022 note that fact.</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>another six months in February 2023 and October 2023.</p>		<p><u>Ministry of Financial Services and Commerce response:</u></p> <p>The Ministry supports AOA’s response.</p>	
<p>2. The Authority does not have a written backup policy</p> <p>The Authority does not have a written back-up policy for its data and files in Quickbooks.</p> <p>The Authority stores most of its records in the Government’s network (L Drive). These records include various accounting records but not the Quickbooks general ledger.</p> <p>The Computer Services Department (CSD) manages the L Drive storage, including keeping backups. The Finance and Administrative Manager creates data back-ups from QuickBooks at least once a month.</p>	<p><i>Risks/ Implications:</i></p> <p>Back-up practices could be inconsistently applied and may not align with agreed arrangements.</p> <p><i>Recommendation:</i></p> <p>The Authority should establish a written information backup policy that balances their operational needs with their information security risk tolerance and disaster resiliency. The basic elements of the policy should include what files need back-up and how often, what media will be used and where they will be saved, as well as testing the recoverability of the backed-up data.</p>	<p>Recommendation accepted.</p>	<p>30 April 2024</p>