



## **NATIONAL ROADS AUTHORITY**

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**Report to those charged with governance on the 2023 audit**

**July 2024**

*To help the public service  
spend wisely*

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2023 financial statements of the National Roads Authority (the “Authority” or “NRA”). 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:
  - 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 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](http://www.auditorgeneral.gov.ky).

## AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

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### 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.

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## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter signed by management on 5 October 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.

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## 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 Managing Director 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 audit opinion on the 2023 financial statements.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. The total gross adjustments made amounted to \$1.57 million (comprised audit adjustments of \$14 thousand and client adjustments of \$1.55 million) and resulted in net adjustments to the Net Worth of \$1.57 million. There were no uncorrected 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 11 April 2024.

## SIGNIFICANT FINDINGS FROM THE AUDIT

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### 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.

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### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management have made significant judgments and estimates with regard to the following financial statements items:

- Depreciation of property, plant and equipment.
- Pension liability and post-retirement healthcare liability

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### 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.

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### SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

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

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#### 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 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.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

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#### DISAGREEMENTS WITH MANAGEMENT

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

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#### 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 National Roads Authority for their help and assistance during the audit of this year's financial statements. This has enabled us to provide an audit report within the agreed timetable.

Yours sincerely,



**Angela Cullen, CPFA**  
Acting Auditor General



## APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

### Audit Adjustments

Number	Name	Account No	Debit	Credit
1	Vacation expense	80003	14,087	
	Employee entitlements	20210		(14,087)
To correct vacation pay computation error				
<b>Total</b>			<b>14,087</b>	<b>(14,087)</b>

### Client Audit Adjustments

Number	Name	Account No	Debit	Credit
1	Other Comprehensive Income	42095	563,000	
	Post-Retirement Health Liability	23201		(254,000)
	Post Employment Healthcare Expense	80057		(309,000)
To record year-end actuarial valuation entries.				
2	Pension Liability	23200	907,700	
	Other Comprehensive Income	42095		(781,000)
	Pension-Past Service Cost	80002		(126,000)
To record year-end actuarial valuation entries.				
3	Salary	80001	59,796	
	Professional Fees	80024	2,959	(6,500)
	Trade Payables	20100		(8,170)
	Accruals	20150		(54,585)
Operating expenses client adjustment.				
4	Repair & Maintenance - Parts	60003	6,797	
	Professional Fees	80024	5,646	
	Trade Payables	20100		(12,433)
Operating expenses client adjustment.				
<b>Total</b>			<b>1,558,198</b>	<b>(1,558,198)</b>

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>1. Non-compliance with the Procurement Regulations.</b></p> <p>The Authority obtained well drilling services for \$680k without approval from the Public Procurement Committee (PPC).</p>	<p><b>Risk/Implication:</b></p> <p>Non-compliance with acts and regulations and the possibility of not getting value for money from this acquisition.</p> <p><b>Recommendation:</b></p> <p>Management should ensure compliance with procurement regulations at all times. In particular, ensure that all purchases are within the approved limits.</p>	<p>In November 2022 one local well drilling company went out of business leaving only two well drilling companies. Whilst the NRA did not issue a public tender during the first 6 months of 2023, well drilling services were procured on an ad-hoc basis with request for price quotes issued to both well drillers each occasion. Watler &amp; Hislop consistently provided lower drill rates, and was consistently more responsive to service requests than its competitor Industrial Services &amp; Equipment (ISE).</p> <p>On October 27<sup>th</sup> 2023 NRA posted an RFI on Bonfire (<b>NRA/2023/RFI-002</b>) for stormwater disposal well drilling services for up to 100 wells. This RFI was responded to by Watler and Hislop only. <b>To be clear, the other local well driller, Industrial Services &amp; Equipment (duly notified) did not respond to the RFI.</b></p> <p>A public Tender for well drilling services was also published on Bonfire as <b>NRA/2024/RFQ-02</b>. The tender closed on January 26, 2024 with Watler and Hislop once again being the sole respondent to the tender.</p>	<p>January 2024</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>2. Notice of Interest declarations were only made after year-end.</b></p> <p>Notice of interests' declarations covering the 2023 financial year end were only completed after year end i.e. between February and April 2024.</p>	<p><b>Risk/Implication:</b></p> <p>The Authority may not be able to identify and manage conflicts of interest when they arise. Also, there is a risk of incomplete disclosure of related party transactions resulting in non-compliance with International Public Sector Accounting Standards, which could lead to incorrect decisions by financial statement users.</p> <p><b>Recommendation:</b></p> <p>The Authority should obtain notice of interest declarations from Board members and key management personnel at the beginning of the financial year and obtain updates when changes arise during the financial period.</p>	<p>This was an oversight by the Board and Management. Typically, the Board's Executive Secretary acts as the reminder of NOI forms but the Board did not have a full-time secretary in all of 2023.</p> <p>We will endeavour to ensure that future NOI declarations are completed on time.</p>	<p>Immediate</p>
<p><b>3. No password policy for Accounting Software.</b></p> <p>There is currently no password policy in place for the Explorer Accounting Software.</p>	<p><b>Risk/Implication:</b></p> <p>The absence of a password policy poses a risk of user accounts being breached as the application contains critical financial data for the entity. As a result, this could lead to theft and fraudulent transactions resulting in financial loss to the Authority.</p>	<p>The NRA will consult with the accounting software vendor regarding the setting up of stronger access passwords. Note: the original version of the software did not have strong passwords requirements, but we have already confirmed with the vendor that stronger login password is available with the current version.</p>	<p>Immediate</p>



Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
	<p><b>Recommendation:</b></p> <p>Management should establish and implement a password policy as soon as possible.</p>		
<p><b>4. Excessive number of users with administrator rights</b></p> <p>Four NRA users have administrator rights within the Explore Eclipse Accounting Application.</p>	<p><b>Risk/Implication:</b></p> <p>This could result in unauthorized changes to the financial data related to the accounting software.</p> <p><b>Recommendation:</b></p> <p>The Authority should limit the number of users with administrator rights on an as-needed basis and document that justification.</p>	<p>Management has afforded the four administrator rights within its accounting system in conformity with its internal control policy. These privileges are awarded to the IT Manager, along with the Chief Financial Officer to allow access levels to the service provider for maintenance and updating high level features as may be required for output improvements. This also affords personnel cover in situations of absences. In addition, the CHRO has been provided administrative rights in confirming with the NRA policy that requires all Employee related matters be uploaded/adjusted in its Accounting system by the Human Resources Department only. Additionally, the Service provider license allows for the fourth Administrative rights which the Authority provides to the OAG during its annual audit to complete audit testing thoroughly.</p>	



Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>5. No IT strategy</b></p> <p>The Authority does not have an IT strategy and its corporate strategy does not have sufficiently speak about its IT resources or requirements.</p>	<p><b>Risk/Implication:</b></p> <p>Misalignment of business and IT objectives, and IT risks not managed effectively, which exposes NRA to further risks such as cybersecurity and operational inefficiencies. This could result in financial loss to the Authority.</p> <p><b>Recommendation:</b></p> <p>Management should put together an IT strategy and ensure that it aligns with the Authority's business goals.</p>	<p>Management accepts this recommendation and will work to quickly deliver a digital data and technology strategy that will be included as part of the strategic operations plan. The new data and technology strategy shall focus on:</p> <ol style="list-style-type: none"> <li>1. Transforming NRA Services across asset management, customer focused and corporate functions (includes Accounting, Human Resources, Project Management, etc)</li> <li>2. Providing the data and technology NRA staff need to make better decisions to do their jobs safely and securely.</li> <li>3. Providing digital resilience maturity framework that will enable us to assess our current cyber security maturity and create improvement plans.</li> </ol>	<p>December 31, 2024</p>