



AUDITORS OVERSIGHT AUTHORITY

Report to those charged with governance on the 2021 audit

May 13, 2022

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2021 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:
 - 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 2021 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 30 August 2021 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 2021 financial statements.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. 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 25 March 2022.

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 identified a significant and other matters relating to internal controls as part of our audit. This include:
 - Revenue recognition

Details are included in Appendix 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 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.

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 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 – SUMMARY OF CORRECTED MISSTATEMENTS

Number	Date	Name	Account No	Debit	Credit
1	12/31/2021	Audit Fees	55506	3,500	
1	12/31/2021	Other Payables & Accruals	20160		(3,500)
		Being entry to adjust for audit fees based on the engagement letter.			
2	12/31/2021	Unearned Revenue	20170	3,500	
2	12/31/2021	CIG- Income	46001		(3,500)
		Being to transfer unearned revenue to revenue to cover additional expenses from audit adjustments.			

APPENDIX 2 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. <u>Revenue recognition</u></p> <p>The Authority did not achieve all of the objectives set out in its 2020/2021 Ownership Agreement and could not reliably estimate the percentage of completion of its obligations. Accordingly, the Authority recognized as revenue only as that portion of funding received from the Government equal to the expenses incurred in the year ended 31 December 2021 and deferred the balance as unearned revenue. It is unclear how the Authority will earn the unearned revenue of \$54k as of 31 December 2021 or if it intends to pay the funds back to Cabinet.</p> <p>In addition, the Authority billed Cabinet for all of its budgeted revenue in 2021, rather than revenue earned based on accounting policy (outputs that it delivered or expenses it incurred).</p>	<p>Risk/Implication:</p> <p>Without a reliable mechanism for estimating the percentage of completion of its obligations set in its Ownership Agreement with the Government, it is hard to objectively gauge the Authority’s effectiveness and hold it accountable for its performance.</p> <p>The unearned revenue balance in the financial statements may not be earned or paid back to Cabinet.</p> <p>Recommendation:</p> <p>The Authority should establish mechanisms to reliably estimate the percentage of completion of the objectives in its purchase and ownership agreements starting from 2022.</p>	<p>Following discussion with the OAG in 2021, the Authority has split its deliverables for the 2022 and 2023 Ownership Agreements into 4 specific items rather than the one all-encompassing deliverable used previously. We intend to measure the percentage of completion by each deliverable but, as in prior years, there will be a high element of subjectivity involved. The excess funding will probably be earned in 2 ways: (1) by increased effort on the future of the AOA project in 2022; and (2) by a ramping up of AOA operations after its remit is increased. Although no formal decision has been made, it is looking increasingly likely that the outcome of deliberations will be to expand the role the AOA; since the 2022 and 2023 budgets were set at break-even on a "holding pattern" model, increased activity will result in the excess funding being earned.</p> <p>We assume that any funding which is “unearned” can be clawed back by Government at its discretion.</p>	