

## **NATIONAL ROADS AUTHORITY**

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**Report to those charged with governance on the 2021 audit**

**June 2022**

*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 2021 financial statements of the National Roads 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](http://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.

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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 15 September 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.

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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 with an emphasis of matter paragraph 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 misstatements 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 4 May 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. 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 health Liability

### 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 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.

### 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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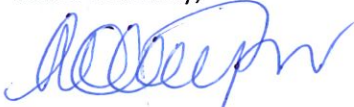
#### ANY OTHER SIGNIFICANT MATTERS

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,



**Sue Winspear, CPFA**  
Auditor General



## APPENDIX 1 – SUMMARY OF CORRECTED AUDIT MISSTATEMENTS

Number	Name	Account No	Debit	Credit
1	Road Construction Services	42085	337,546	
	Road Maintenance Services	42099		(337,546)
To reclassify revenue posted to incorrect account.				
2	Other Receivables	12404	12,800	
	Accruals	20150		(12,800)
	Road Construction Services	42085		(12,800)
	Subcontractors	50005	12,800	
To record works completed prior to year-end (i.e. costs of sales and liability as well as the corresponding revenue and receivable from MPAHI).				
<b>Total</b>			<b>363,146</b>	<b>(363,146)</b>

**APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS**

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>1. Non-compliance with the Public Authorities Act (2020 Revision) (“PAA”).</b></p> <p>Section 47 (1) of the PAA requires all Statutory Authorities and Government Companies to comply with its requirements to standardise salaries and benefits.</p> <p>At the conclusion of the audit, the process to complete this standardisation had not been completed.</p>	<p><b>Risk/Implication:</b> Non-compliance with laws and regulations and potential for staff to be on incorrect pay grades.</p> <p><b>Recommendation:</b> Management should ensure compliance with applicable laws and regulations; In particular, ensure that the standardization process is expedited.</p>	<p>The OAG was advised and shown evidence during the audit process that the NRA, though late in the process, was now fully engaged in taking the necessary steps to be compliant with Section 47 (1) of the PAA.</p> <p>Job descriptions for all positions within the organizational chart have as of May 31, 2022 had initial review with feedback given by the NRA to the Review Consultant and POCS.</p> <p>An implementation plan is being developed for alignment of NRA salaries with the CIG salary grades recommended by the Review Consultant.</p>	<p>December 2022</p>
<p><b>2. Lack of framework governing road construction services revenue.</b></p> <p>There is currently no agreed framework in place for road construction services which aligns with NRA strategic plan for delivery of its services.</p>	<p><b>Risk/Implication:</b> Potential abuse of NRA programs and resources for political gain.</p> <p><b>Recommendation:</b> Management should be guided by the 3- year strategic operational plan which reflects details</p>	<p>Management agrees with the observations and accepts the recommendations of the OAG.</p> <p>The NRA Board approved a 3-year operational plan in May 2022 which covers years 2022, 2023 &amp; 2024</p>	<p>June 2022</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>We observed an unusual spike in “Executive” road fund revenue and related costs during the period Feb - Apr 2021. OAG noted that nearly \$11m or 88% of the Executive road construction budget of \$13m was utilized during the first 4 months of 2021. OAG extended the analysis to the previous election year/period (2017) and noted the same trend, whereby the road services revenues increased in the 3-month period leading to an election.</p> <p>OAG further noted that over the last 3 years, these expenditures were more or less evenly spread throughout the year.</p>	<p>of projects to be undertaken and which incorporates objectives.</p>		
<p><b>3. Funds received for a PPP arrangement without approval from Cabinet.</b></p> <p>NRA received an amount of \$203,446 from a third party for some road works during the month of December 2021. However, no Public Private Partnership (PPP) agreement approved by Cabinet was in a place as of the date of receipt of these funds.</p>	<p><b>Risk/Implication:</b> Potential disputes in the future that could result in financial loss to NRA. NRA could also be exposed to money laundering and other financial risks.</p> <p><b>Recommendation:</b> Management should obtain written approval from Cabinet before receiving funds for road maintenance services from third parties. Management should also ensure that a written PPP agreement should be in place before receiving any funds from third parties in the future.</p>	<p>Management agrees with the observations and accepts the recommendations of the OAG.</p>	<p>Immediate effect</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>4. Non-compliance with the Public Authorities Act (2020 Revision) (“PAA”).</b> Section 7 (2) of the PAA requires all Statutory Authorities and Government Companies to conduct its affairs in a responsible financial manner and accordingly, a public authority shall operate as a profitable and efficient business and contribute to the revenue of core government or, at least, break even in its operations.</p> <p>NRA has made significant losses in the last 2 financial years, i.e. \$353k (2021) and \$1.5m (2020). In addition, the NRA has a negative net asset position of \$14.4m (2021) and \$20.2m (2020). This is despite the fact that NRA budgeted to break-even but results have varied over the last 2 years.</p>	<p><b>Risk/Implication:</b> Non-compliance with laws and regulations.</p> <p><b>Recommendation:</b> Management should engage stakeholders and reevaluate their financial and operational activities and targets to ensure future compliance.</p>	<p>The NRA has a fixed operations income which has remained unchanged since 2016. NRA has repeatedly engaged its primary stakeholder (CIG) in an effort to remedy this situation.</p> <p>It has been demonstrated and is highly obvious that a designated fixed income from 2016 (\$10M) cannot realistically be expected to meet the growing demands of the Authority.</p> <p>Management has made exhaustive efforts to alleviate the occurrence of variable costs however it remains unattainable even with these efforts to even as much as break even. To this extent, what has allowed the Authority to function has been the injection of funding by Ministry for meeting routine operations such as district roads maintenance, drains, guardrail, crosswalks, etc.</p>	