



PORTFOLIO OF THE CIVIL SERVICE

Report to those charged with governance on the 2021 audit

July 2022

*To help the public service
spend wisely*

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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 Portfolio of the Civil Service (the “Portfolio”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Portfolio 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 (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.

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

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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 30th 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 Portfolio'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 Portfolio. We have not reviewed any other documents containing the Portfolio'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 Chief Officer 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 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.
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 16th April 2022.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Portfolio's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Portfolio to make accounting estimates and judgments about accounting policies and financial statement disclosures.

The Portfolio recognises revenue from the grant and administrative fees pertaining to British Overseas Territory Citizenship. At year-end, monies paid by applicants in advance for the grants are recognized as unearned revenue, while administrative fees are recognised upon receipt of application. During the year 2021, changes in procedures like allowing customers to submit applications with payments via the post offices introduced procedural challenges that affected the accuracy of the unearned revenues balance at 31 December 2021. We have asked management to review their year-end data based on our concerns. Ultimately, we concluded that the balance is fairly stated.

There were no other new or controversial accounting practices reflected in the Portfolio'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 Portfolio's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified certain matters relating to the system of internal control we have deemed significant (Appendix 2) and its operation, and are submitting for your consideration related observations and recommendations designed to help the Ministry improve its system of internal control. Other internal control matters are communicated separately to management.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable laws 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 Portfolio'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.

OTHER MATTERS

19. No serious difficulties were encountered in the performance of our audit.
20. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

21. The Cabinet of Ministers authorized a reallocation of appropriations of \$150,000 to the Emerging Talent Development Programme for exceptional circumstances in accordance with section 11(5) of the Public Management and Finance Act (2020 Revision) (“PMFA”). A supplementary Appropriation Bill for the funding was not introduced in Parliament by 31 March 2022 as required by section 11(6) of the PMFA. We included an emphasis of matter paragraph in our auditor’s report on the Portfolio’s financial statements because of this instance of non-compliance with laws and regulations.
22. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

23. We would like to express our thanks to the staff of the Portfolio of the Civil Service 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 MISSTATEMENTS

| No. | Date | Name | Account No | Reference | Annotation | Debit | Credit |
|-----|------------|---|------------|-----------|------------|-----------|------------|
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | 4,540.01 | |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | 21,225.00 | |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | 1,500.00 | |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | 14,517.83 | |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | 1,209.75 | |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | | -834.00 |
| 1 | 12/31/2021 | KYD-Ministry and Portf | 10101 | | | | -56.00 |
| 1 | 12/31/2021 | Accruals - Other | 20150 | | | | -4,540.01 |
| 1 | 12/31/2021 | Accruals - Other | 20150 | | | | -1,500.00 |
| 1 | 12/31/2021 | Accruals - Other | 20150 | | | | -1,209.75 |
| 1 | 12/31/2021 | Prior Period Adjustmen | 32006 | | | 834.00 | |
| 1 | 12/31/2021 | Naturalisation and Reg | 42027 | | | | -21,200.00 |
| 1 | 12/31/2021 | Expungement of Record | 42169 | | | | -25.00 |
| 1 | 12/31/2021 | Movement in Annual Lea | 50150 | | | | -14,517.83 |
| 1 | 12/31/2021 | Entity Bank Charges | 54227 | | | 56.00 | |
| | | To record bank debits and credits not posted to the GL as at 12/31 | | | | | |
| 2 | 12/31/2021 | USD-Ministry and Porfo | 10102 | | | | -20,239.51 |
| 2 | 12/31/2021 | State Dated Cheques - | 20383 | | | 20,239.51 | |
| | | To reconcile the GL to the cash balance per reconciliation (client adjustment) | | | | | |
| 3 | 12/31/2021 | Accruals - Other | 20150 | | | 25,000.00 | |
| 3 | 12/31/2021 | Accruals - Other | 20150 | | | | -5,724.00 |
| 3 | 12/31/2021 | Accruals - Other | 20150 | | | | -6,838.80 |
| 3 | 12/31/2021 | Prior Period Adjustmen | 32006 | | | 6,838.80 | |
| 3 | 12/31/2021 | Prior Period Adjustmen | 32006 | | | 5,724.00 | |
| 3 | 12/31/2021 | Professional Fees | 54256 | | | | -25,000.00 |
| | | To reverse prior year audit adjustments posted after GL close | | | | | |

CORRECTED MISSTATEMENTS CONT'D

| No. | Date | Name | Account No | Reference | Annotation | Debit | Credit |
|-----|------------|---|------------|-----------|------------|--------------|---------------|
| 4 | 12/31/2021 | Asset Revaluation Rese | 31003 | | | | -433,078.88 |
| 4 | 12/31/2021 | Opening Balance - Netw | 32004 | | | 433,078.88 | |
| | | To correct revaluation reserve adjustment | | | | | |
| 5 | 12/31/2021 | Exec/MLA Salary - Rece | 12029 | | | | -28,000.00 |
| 5 | 12/31/2021 | Gain/Loss on Derecognition of Assets | 59006 | | | 28,000.00 | |
| | | To derecognise receivable from Cabinet for MLA salaries (client adjustment) | | | | | |
| 6 | 12/31/2021 | Surplus Payable | 23422 | | | | -1,438,911.47 |
| 6 | 12/31/2021 | Surplus Repayment | 32007 | | | 1,438,911.47 | |
| | | To transfer surplus for the year | | | | | |
| 7 | 12/31/2021 | Other Receivables | 12012 | | | | -9,587.00 |
| 7 | 12/31/2021 | Other Receivables | 12012 | | | | -73,437.44 |
| 7 | 12/31/2021 | Other Current Liabilt | 23400 | | | 9,587.00 | |
| 7 | 12/31/2021 | Other Current Liabilt | 23400 | | | 73,437.44 | |
| | | To adjust the governance funding receivable recorded at year end | | | | | |
| 8 | 12/31/2021 | Other Current Liabilt | 23400 | | | 34,413.00 | |
| 8 | 12/31/2021 | Professional Fees | 54256 | | | | -34,413.00 |
| | | To reallocate training costs to Governance Project Fund (Ideas First) | | | | | |

CORRECTED MISSTATEMENTS CONT'D

| | | | | | |
|--|------------|---|-------|---------------------|---------------------|
| 13 | 12/31/2021 | Other Inventories for use within one year | 13201 | 36,565.00 | |
| 13 | 12/31/2021 | Other Inventories for use within one year | 13201 | | 414.09 |
| 13 | 12/31/2021 | Contributed Capital | 35001 | | 36,565.00 |
| 13 | 12/31/2021 | Cost of Sales - Materials | 50414 | 414.09 | |
| To recognise inventory transferred from MBCL | | | | | |
| 14 | 12/31/2021 | Accruals - Other | 20150 | | 9,750.00 |
| 14 | 12/31/2021 | Accruals - Other | 20150 | | 2,165.22 |
| 14 | 12/31/2021 | Accruals - Other | 20150 | | 2,462.25 |
| 14 | 12/31/2021 | Basic Salary | 50011 | 1,876.50 | |
| 14 | 12/31/2021 | Acting Allowance | 50029 | 56.73 | |
| 14 | 12/31/2021 | Government Pension Con | 50080 | 116.00 | |
| 14 | 12/31/2021 | Pension Contribution - | 50082 | 115.99 | |
| 14 | 12/31/2021 | Training | 50229 | 9,750.00 | |
| 14 | 12/31/2021 | Software Licensing Fee | 54352 | 2,462.25 | |
| To record 2021 invoices (client adjustment) | | | | | |
| | | | | 2,170,469.25 | 2,170,469.25 |

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

| Observation | Risk/Implication and Recommendation | Management Response |
|---|---|---|
| <p>1. <u>Unreconciled bank credits</u></p> <p>At year end, we observed a balance of \$40,900 in amounts credited by the bank but not recorded in the general ledger. Furthermore, \$38,900 related to payments received during December 2021 which remained uncleared with no appropriate basis. This amount was adjusted by the client at year end but is a recurring audit finding.</p> | <p>Risk/Implication</p> <p>Cash, revenue and receivables could be misstated at year end.</p> <p>Recommendation</p> <p>Management should ensure that bank credits and debits received around the year end date are adequately investigated and appropriately recorded at year end.</p> | <p>Management notes the recommendation.</p> <p>The PoCS finance team has further improved those elements of the monthly bank reconciliation process that are within its control.</p> <p>However, it should be noted that the Portfolio periodically receives funds from internal and external parties for which there are insufficient descriptions / details in the bank statement, and / or for which the customer provides no notice or confirmation of payment; hence, occasionally resulting in delayed receipting in PoCS' ledgers.</p> |