

UTILITY REGULATION AND COMPETITION OFFICE

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 Utility Regulation and Competition Office (“the Office”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Office 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 so that you can consider them before the financial statements are approved and signed.
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

- 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:

- Management's responsibilities are detailed in the engagement letter 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:

- We have no responsibility to perform any audit work on other information, including forward looking statements, in documents containing audited financial statements, we have read the other information contained in the Utility Regulation and Competition Office's annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or with our knowledge of the operations of the Office. We have not reviewed any other documents containing the Office'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 Executive Officer and the Board signed and on 22nd October 2021, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We issued an unmodified audit opinion on the financial statements.
9. A summary of misstatements corrected by management is attached in Appendix 1. A summary of misstatements that were uncorrected by management is attached in Appendix 2.
10. As part of the completion of our audit we have received written representations from management on aspects of the accounts and judgements and estimates made. Management has provided us with representations, which formed part of our audit evidence. These representations were provided to us on 1st May 2022.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Office's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Office to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices have changed from the previous year or are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Office's financial statements.
12. Details of any significant findings from the audit are included in Appendix 3 along with management's response. Other findings from the audit have been communicated to the client through email or verbally.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates except for the defined benefit 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 Office's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

15. Details of the significant deficiencies in internal control and other internal control findings are included in Appendix 3 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 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 entity'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. There were no instances of suspected fraud in the 2021 financial year.

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

1. We would like to express our thanks to the staff of the Office for their assistance during the audit of this year's financial statements, this allowed us to complete the audit by the statutory timeline.

Yours sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES FROM UTILITY REGULATION AND COMPETITION OFFICE

Date	Name	Account No	Debit	Credit
12/31/2021	Post Ret. Health Care Liability	28000	283,000.00	
12/31/2021	Acc. Other Comprehensive Income	35000		-283,000.00
	Post-Retirement Health Care Liability			
12/31/2021	DB Pension Liability	21750	171,000.00	
12/31/2021	Acc. Other Comprehensive Income	35000		-147,000.00
12/31/2021	DB Pension Expense	58102		-24,000.00
	To record pension Liability			
	Total		454,000.00	-454,000.00

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES FROM OFFICE OF THE AUDITOR GENERAL

Date	Name	Account No	Debit	Credit
12/31/2021	Prior Period Adjustments	39500		-13,440.00
12/31/2021	Prior Period Adjustments	39500		-10,542.00
12/31/2021	Prior Period Adjustments	39500		
12/31/2021	Ham/Amateur	40205	13,440.00	
12/31/2021	Supply tank under 39,999 imp/gallon	44004	1,917.00	
12/31/2021	Pipeline Operated Premises	44005	958.32	
12/31/2021	Supply Tank 350K - 3.5mil imp/gallon	44007	3,354.12	
12/31/2021	Supply Tank over 3.5 Mil imp/gal	44008	4,312.56	
	To record prior period revenues from July 20, 2017 - Dec 31, 2020 - CUC & To record application fee for Rubis - Dec 15, 2020			
	Total		23,982.00	-23,982.00

APPENDIX 2 – SUMMARY OF UNADJUSTED DIFFERENCES (PROJECTED)

Date	Name	Account No	Debit	Credit
12/31/2021	Prepayments	14500		-1,713.00
12/31/2021	Work Permit Fees	54520	1,713.00	
	Prepayments overstated			
			1,713.00	-1,713.00

APPENDIX 3 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. <u>Lack of governance and oversight</u></p> <p>Section 13 of the Utility Regulation and Competition Act (2021 Revision) stipulates that there shall be a board of directors of the Office which, subject to the Act, shall be responsible for:</p> <p>(a) carrying out the functions and powers of the Office under this or any other Law; and</p> <p>(b) the general administration of the affairs and business of the Office</p> <p>(2) When making a decision on any regulatory issue, the Board shall have regard to the views and recommendations of the executive members.</p> <p>Between May and November 2021, Of Reg was without a functioning Board of Directors. As at 31 December 2021, while members were appointed to the board, it did not meet its full complement of 5</p>	<p><u>Risk/ Implication:</u></p> <p>Main functions of the board such as establishing strategic direction, participating in regulatory decisions, being accountable for the entity's annual report and financial statements, ensuring that the entity is managed with probity and integrity, monitoring the performance of the CEO etc. were not effectively carried out during this period.</p> <p><u>Recommendation:</u></p> <p>Cabinet should put measures in place to ensure that there is a functioning board of directors throughout the year.</p>	<p>The Cabinet of the Cayman Islands Government is responsible for ensuring that OfReg has a functioning Board of Directors. This is outlined in Section 15 (1) (The Chair) and Section 18 (1) (Appointment of non-executive members) of the Utility Regulation and Competition Act (2021 Revision) and Section 9 (1) (Appointment of Board Members) and Section 12 (Appointment to fill board vacancy) of the Public Authorities Act (2020 Revision). As such the observation and accompanying recommendation should be re-directed to said Cabinet.</p>	<p>N/A</p>

non-executive directors and was short of 2 directors.			
<p>2. <u>Lack of notice of interest declarations</u></p> <p>Signed notice of interests were not completed by old non - executive members of the board i.e. from January to May 2021.</p>	<p><u>Risk/ Implication:</u></p> <p>Financial and non-financial interests as well as close family ties may not be declared and appropriately managed to prevent a conflict of interests. These interests may compete with duties and responsibilities and acting in favor of potential or perceived personal benefits.</p> <p><u>Recommendation:</u></p> <p>The Office should aim to have notice of interests completed on an annual basis, updated for any changes and adequately monitored throughout the year.</p>	<p>Declaration of Interests are signed annually at the end of the year in accordance with Section 106 (6) of the Utility Regulation and Competition Act. The former Non-Executive Directors (NEDs) of the Board submitted their declarations in accordance with this time frame. The former NEDs' term expired in May 2021 and declarations were not requested upon expiration of their terms.</p> <p>The Office will increase the number of occasions on which signed notices of declaration of interests are completed.</p>	December 31, 2022
<p>3. <u>Lack of a formal Risk Management Policy</u></p> <p>An effective risk management system provides assurance that risks to the entity have been</p>	<p><u>Risk/ Implication:</u></p> <p>By not implementing a formal risk management policy, the Office may not consider the various potential</p>	The Office is in the process of establishing a formal risk management framework.	Q1 2023

<p>identified, assessed/ analyzed, have a detailed response/prioritization, monitored, and controlled. During the period under review, the Office did not have a risk management policy in place.</p>	<p>risks or events before they occur. In addition, the Office may not have established procedures to avoid potential threats to minimize the impact should they occur.</p> <p><u>Recommendation:</u></p> <p>The Office should implement a formal risk management policy that allows it to identify, assess and manage its risks.</p>		
<p>4. <u>Revenue Schedules</u></p> <p>Some revenue schedules such as type approval, ship radio and aircraft radio can be improved to show pertinent information relating to customers.</p>	<p><u>Risk/ Implication:</u></p> <p>Information for decision making purposes may be difficult and/or time consuming to extract.</p> <p><u>Recommendation:</u></p> <p>The Office should aim to have a system that captures pertinent information that relates to customer revenue which can be easily analysed.</p>	<p>The Office currently records the ship radio and aircraft radio licence revenue in daily batches in the GL due to the volume of these transactions.</p> <p>The Office will be implementing a new system that will facilitate the generation of detailed revenue schedules.</p>	<p>January 1, 2023</p>