



PORTFOLIO OF THE CIVIL SERVICE

Report to those charged with governance on the 2016/17 audit

08 MAY 2018

*To help the public service
spend wisely*

TABLE OF CONTENTS

Introduction	4
AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT.....	4
Auditor’s responsibility under International Standards on Auditing.....	4
Responsibilities of Management and Those Charged With Governance	5
CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT.....	5
AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION	5
SIGNIFICANT FINDINGS FROM THE AUDIT	5
Significant accounting practices	5
Management’s judgments and accounting estimates.....	6
Going concern doubts.....	6
Significant deficiencies in internal control.....	6
Fraud or illegal acts.....	6
Significant difficulties encountered during the course of our audit.....	7
Disagreements with management.....	7
Any other significant matters	7
Acknowledgements	7
Appendix 1 – Summary of adjusted differences	8
Appendix 2 - Internal control matters & significant findings	12

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2017 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 2016/17 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 Law (2015) 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 9th August 2017 to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

6. 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

7. We have issued an unmodified auditor's report on the 2017 financial statements.
8. A summary of audit adjustments made to the financial statements is attached in Appendix 1. There were no uncorrected misstatements arising from the audit.
9. 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 30 April 2018.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

10. 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.

We are, however, not aware of any new or controversial accounting practices reflected in the Portfolio's financial statements.

11. Details of any significant findings from the audit are included in Appendix 3 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

12. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

13. 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 DEFICIENCIES IN INTERNAL CONTROL

14. We identified a number of significant matters relating to internal controls as part of our audit. These include:

- Unearned revenue.
- Cut-off issues – unrecorded receivables.

Details are included in Appendix 2 along with management's response.

FRAUD OR ILLEGAL ACTS

15. 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.

16. 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.

17. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

20. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

21. 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

Number	Date	Name	Account No	Debit	Credit	Misstatement
1	12/31/2017	Other Receivables	12012	22,500.00		
1	12/31/2017	Prior Period Adjustments	32006		22,500.00	
		Being entry to book amount receivable from ICTA that should have been recorded in receivables from 2014/2015				Factual
2	12/31/2017	Expense AP Accrual (System Only)	20160		7,293.80	
2	12/31/2017	Prior Period Adjustments	32006	7,293.80		
		Being entry to reconcile general ledger to purchase order sub ledger report - prior year variances carrying forward.				Factual
	12/31/2017	Accruals - Other	20150		111,133.44	
3	12/31/2017	Other Current Liabilities	23400	6,292.00		
3	12/31/2017	Naturalization and Registration	42027	625.00		
3	12/31/2017	Temporary Relief	50018	30,489.50		
3	12/31/2017	Acting Allowance	50029	13,538.90		
3	12/31/2017	Employee Health Care Costs	50072	4,164.00		
3	12/31/2017	Staff Welfare	50074	1,978.00		
3	12/31/2017	Government Pension Contribution	50080	1,829.37		
3	12/31/2017	Pension Contribution - PPE Employee	50082	1,829.37		
3	12/31/2017	Recruitment	50211	1,394.94		
3	12/31/2017	Official Travel - Expense	50224	667.47		
3	12/31/2017	Cleaning Materials	50411	460.92		
3	12/31/2017	Food / Dietary Supplies	50602	323.32		
3	12/31/2017	Office Supplies - Consumables	51001	249.46		
3	12/31/2017	Office Supplies - Consumables	51001		28.47	
3	12/31/2017	Printing - Other	51051	1,335.63		
3	12/31/2017	Training Materials	51081	1,929.95		
3	12/31/2017	Water	51420	362.52		
3	12/31/2017	Telephone Charges	51430	51.03		
3	12/31/2017	Facsimile Charges	51450	113.00		
3	12/31/2017	Cable Television	51470	10.00		

3	12/31/2017	Attendance Allowance - Govt Com	54223	200.00	
3	12/31/2017	Attendance Allowance - Govt Com	54223	200.00	
3	12/31/2017	Bank Charges	54227	70.00	
3	12/31/2017	Professional Fees	54256	25,784.34	
3	12/31/2017	Legal Fees	54264	1,515.98	
3	12/31/2017	Hospitality	54302	2,556.24	
3	12/31/2017	Hospitality	54302		449.00
3	12/31/2017	Mail Courier Service	54304	125.00	
3	12/31/2017	Janitorial Services	54306	82.50	
3	12/31/2017	Maintenance - Other Equipment	54324	4,310.30	
3	12/31/2017	Maintenance - Other Equipment	54324		94.83
3	12/31/2017	Transportation	54405	125.00	
3	12/31/2017	Dry Cleaning/Laundry Services	54982	83.92	
3	12/31/2017	Lease of Sites or Buildings	58001	9,008.08	

Being entry to post accruals that
were not recorded as at Dec 31, 2017.

4	12/31/2017	Accruals - Other	20150	18,706.79	
4	12/31/2017	Computer and Communications	50962		249.00
4	12/31/2017	Miscellaneous Supplies	51079		106.97
4	12/31/2017	Expensed (Attractive) Assets	51086		744.00
4	12/31/2017	Professional Fees	54256		17,606.82

Being entry to reverse accruals
recorded as at Dec 31, 2017.

5	12/31/2017	Accruals - Other	20150	92,119.80	
5	12/31/2017	Government Pension Contribution	50080		46,059.90
5	12/31/2017	Pension Contribution - PPE Employee	50082		46,059.90

Being entry to reverse amounts
accrued for pension.

6	12/31/2017	Executive MLA Salary - Receivable	12029	2,904.00	
6	12/31/2017	Accruals - Other	20150	14,819.00	
6	12/31/2017	Accruals - Other	20150		40,710.90
6	12/31/2017	Employee Health Care Costs	50072		23,261.00
6	12/31/2017	Employee Health Care Costs	50072	43,500.00	
6	12/31/2017	Attendance Allowance - Govt Com	54223	250.00	

6	12/31/2017	Security Services Interdepartmental	55501	2,498.90	
Being entry to post accruals that were not recorded as at Dec 31, 2017.					
7	12/31/2017	Internal Audit Service Fees	42094		2,242.50
7	12/31/2017	Outputs Sold to Cabinet (EXCO)	46001	2,242.50	
Being entry to book amount to reclass outputs sold to Cabinet.					
8	12/31/2017	Other Receivables	12012	10,693.60	
8	12/31/2017	Overtime	50013		10,693.60
Being entry to adjust amount booked for overtime.					
9	12/31/2017	Accounts Receivable - Sale of Goods	12003		160.00
9	12/31/2017	Gain/Loss on Derecognition of Assets	59006	160.00	
Being entry to adjust amount booked for accounts receivables					
10	12/31/2017	Surplus Payable	23422	6,337.10	
10	12/31/2017	Surplus Repayment	32007		6,337.10
Being entry to adjust amount booked for surplus payable.					
11	12/31/2017	Expense AP Accrual (System Only)	20160	44,718.30	
11	12/31/2017	Awards Register / Medals	51073		44,718.30
Being entry to adjust amounts included in expense AP accrual that was already paid during the year.					
12	12/31/2017	Other unearned coercive revenue	21400	32,600.00	
12	12/31/2017	Naturalization and Registration	42027		32,600.00

Being entry to adjust unearned
revenue to recognize non-refundable filing fees as revenue immediately.

13	12/31/2017	Surplus Payable	23422		75,518.40
13	12/31/2017	Surplus Repayment	32007	75,518.40	
Being entry to adjust surplus payable/repayment for additional journals posted.					
				488,567.93	488,567.93

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. <u>Unearned Revenue:</u></p> <p>As per note 8 in the financial statements, the Deputy Governor's office collects fees for naturalization and British Overseas Territories Applications that are not recognized as revenue until the application is approved. During the course of the audit it was noted that the client is currently doing the opposite of this, as all fees collected are recorded as revenue after which fees that relates to pending applications are transferred to unearned revenue.</p> <p>In the current year, one of the corrected misstatements involved the amount applied to pending applications at year-end being backflushed as unearned revenue.</p>	<p>Risk/Implication:</p> <p>This is not a systematic way of recognizing revenue as there is a risk that revenue may be overstated and unearned revenue maybe understated.</p> <p>Recommendation:</p> <p>The Portfolio should move towards recording the application fees initially as unearned revenue and then recognizing revenue when the applications are approved.</p>	<p>Management accepts this finding and will take steps in the new fiscal year to update the process by recording it as unearned revenue at the point of collection.</p> <p>During the previous audit, our auditor highlighted that no unearned revenue was recognized. After a thorough review exercise was completed, the DGO Office updated their systems in order to have a systematic way of recognizing unearned revenue. This process was to the auditor's satisfaction. There was no discussion of the matter now presented.</p>	1 July 2018
<p>2. <u>Cut-off Issues – Unrecorded Receivables</u></p> <p>During the audit it was noted that an</p>	<p>Risk/Implication</p> <p>There is a risk that receivables maybe understated due to unbilled amounts for work completed</p>	<p>Management accepts the auditor's recommendation. It further notes that this issue presents a low risk as the total earnings from inter-org billing represent</p>	1 July 2018

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>amount of \$22,500 receivable from what was the Information and Communication Technology Authority (ICTA) for consultancy work provided in 2015-16 was never billed.</p>	<p>Recommendation It is recommended that management should keep track of all invoices for work being carried out. This will prevent legitimate inter-org billable work not being invoiced at year end.</p>	<p>approximately 1% of total revenue for the PoCS. This particular transaction arose from a highly unusual set of circumstances whereby the Management Support Unit (MSU) provided HR consultancy services to a statutory authority, but before the amount was billed both the manager and the employee who provided the services moved on from the MSU. It is a rare set of circumstances which is unlikely to be repeated. However, improvements will be made to the tracking of inter-org billable work.</p>	