



## **PORTFOLIO OF THE CIVIL SERVICE**

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**Report to those charged with governance on the 2018 audit**

**08 October 2019**

*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 2018 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 2018 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 (2018) 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 28<sup>th</sup> September 2018 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 2018 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<sup>th</sup> April 2019.

## SIGNIFICANT FINDINGS FROM THE AUDIT

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### 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 2 along with management's response.

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#### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

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#### 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.

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#### SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

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

- Purchase orders not being cleared/adjusted

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

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#### 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.

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#### SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

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

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#### DISAGREEMENTS WITH MANAGEMENT

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

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#### ANY OTHER SIGNIFICANT MATTERS

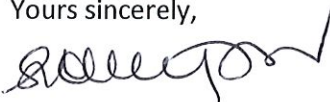
20. There were no other significant matters noted during the audit.

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#### 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	12/31/2018	Expense AP Accrual (System)	20160	16,463		
1	12/31/2018	Awards Register / Meda	51073		(16,463)	
		Being entry to post the effect of PO2997 cancellation - GT Crafts Ltd.				
2	12/31/2018	Expense AP Accrual (System)	20160	1,025		
2	12/31/2018	Office Supplies	51001		(1,025)	
		Being entry to post effect of PO3489 cancellation - Kirk Office Ltd.				
3	12/31/2018	Surplus Payable	23422		(17,488)	
3	12/31/2018	Surplus Repayment	32007	17,488		
		Being entry to book amount for surplus payable based on audit adjustments.				
				34,977	(34,977)	



APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. <b>Purchase Orders are not being cleared/adjusted</b> Purchase orders (PO) were included in the 20160 expense AP accrual account that was not being cleared/adjusted on a timely basis. The most probable scenario in processing that gives rise to this deficiency would be that a PO is raised and/or for which goods or services were received; however, when the invoices are received an entirely new transaction is created, which duplicates the previously created PO.</p>	<p><b>Risk/Implication</b> Accruals could be overstated; and could result in double payment.</p> <p><b>Recommendation</b> Management should ensure that invoices received are first matched against the open purchase orders before they are inputted into the system. Furthermore, management should regularly and periodically review the open purchase order to determine their validity and completeness, particularly at year-end.</p>	<p>Management accepts the recommendation and will put additional controls in place to ensure that this risk is mitigated.</p> <p>Historically, monthly reviews of the "Open PO Report" do take place. However, in the past greater emphasis has been placed on ensuring that POs are received in a timely manner so that expenditure is recognized in the correct period once the goods or service had been received. Moving forward, greater attention will be given to ensure that POs that have been received are cleared in a timely manner.</p>	<p>Effective immediately</p>

