



SISTER ISLANDS AFFORDABLE HOUSING DEVELOPMENT CORPORATION

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

October 2018

*To help the Public Service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We completed our audit for the 18 month period ended 31 December 2017 financial statements of the Sister Islands Affordable Housing Development Corporation (the "Corporation", "SIAHDC"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Corporation 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; and
 - 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 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 Revision) it is the policy of the Office of the Auditor General to release all audit reports proactively through our website: www.aitorgeneral.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. 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 read the other information contained in the Sister Islands Affordable Housing Development Corporation annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Sister Islands Affordable Housing Development Corporation. We have reviewed the Development Corporation's Annual Report for the 18 month period ended 31 December 2017 containing the Sister Islands Housing Development Corporation audited financial statements and found no material inconsistencies to report. to ensure our compliance with the ISAs.

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, as well as the nature and scope of the audit, were outlined in an engagement letter sent to the Chairman of the Board of Directors on 11 September 2017. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. As required by International Auditing Standards we sought written representations from management on aspects of the accounts and judgments and estimates made in the financial statements for the 18 month period ended 31 December 2017. We have requested that management provide us with representations in respect of our financial statement audit, which they have provided to us.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. There are no uncorrected misstatements.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

10. We are responsible for providing our views about qualitative aspects of the Corporation's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Corporation to make accounting estimates and judgments about accounting policies and financial statement disclosures. The financial statements reflect the correction of prior period figures where previously sales of housing were recognized upon agreement to sell/purchase. The accounting policy disclosure now reflects more specifically that the sales of housing happen when the receipt of funds from the funding bank happens, even when it is pending the formal transfer of title. This policy is reflected in

the current and prior year transactions in these financial statements. Apart from this, we are not aware of any new or controversial accounting practices reflected in the Corporation financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

GOING CONCERN DOUBTS

12. 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 SIAHDC's ability to continue as a going concern.

DEFICIENCIES IN INTERNAL CONTROL

13. We identified deficiencies relating to internal controls as part of our audit in Appendix 2. These observations related to issues that were identified in the current year. These include:
- Output Billing to Cabinet
 - Contract Management
 - Lack of Proper Documentation
 - Legal Representation (Re-iteration from prior year)

FRAUD OR ILLEGAL ACTS

14. 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.
15. 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 controls and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

17. The below significant difficulties were encountered during the course of our audit and are included in Appendix 2 below.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

19. There were no other significant matters.

ACKNOWLEDGEMENTS

We would like to express our thanks to the staff of the Sister Island Affordable Housing Development Corporation 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 ADJUSTED DIFFERENCES

July 1, 2016 – December 31, 2017

Ref	Name	Account No.	Debit	Credit
1	62200 20000	Advertising Fees Accounts payable To adjust for unrecorded advertising expense	480	480
2	32000 12352	Unrestricted net assets Home sales To recognize house sales of October 2016.	213,750	213,750
3	12345 53600	Construction in progress Subcontractors expense To capitalize subcontractors expense.	7,845	7,845
4	12345 20000	Construction in progress Accounts payable To adjust for work done and not billed	10,354	10,354
5	12001 33000	Interest receivable Interest income To accrue for interest income at year end.	155	155
6	20000 68600	Accounts payable Utilities To adjust for utilities	310	310

APPENDIX 1 – SUMMARY OF ADJUSTED DIFFERENCES (CONTINUED)

Ref	Name	Account No.	Debit	Credit
7	53611	Cost of land	55,000	
	51900	Other construction cost	206,361	
	32000	Unrestricted net assets		261,361
		To recognize cost of goods sold relating to October 2016 sales		
8	17000	Office equipment	2,459	
	64900	Office supplies		2,459
		To record equipment previously recorded as office supplies		
9	12000	Unrestricted net assets	1,700	
	66700	Professional fees		1,700
		To record prior period adjustment		
			498,414	498,414

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response
<p>1. Output billing to Cabinet</p> <p>The Corporation produces goods and services for Cabinet, the goods and services along with the budgeted amounts are detailed and agreed to by both parties annually in the Purchase Agreement.</p> <p>It was noted that amounts billed to Cabinet by the SIAHDC were based on the approved budgetary amount for the fiscal year and not on the actual cost of producing the goods and services.</p>	<p><u>Risk/Implication</u> Amounts billed to Cabinet to agree to the approved budgetary amounts may not factor in the actual costs of producing the goods and services when they are actually produced. This system of billing could result in the over or under billing of the services produced for Cabinet.</p> <p><u>Recommendations</u> It is recommended that outputs produced for Cabinet be measured using the input factors such as salary and other overheads to cost the outputs. This will result in the Corporation charging Cabinet the actual cost of producing the outputs.</p>	<p>For the first three quarters of the fiscal year 18/19, SIAHDC billed the Cabinet for actual as recommended in the risk/implication and recommendation section.</p> <p>As there are no homes under construction for quarter four of the fiscal year 18/19, SIAHDC will comply with previous management response.</p> <p>Sidney O. Ebanks Chairman</p>
<p>2. Contract Management</p> <p>During the audit the following were observed:</p> <ul style="list-style-type: none"> • Vendor #1 was paid in excess of 15K of the contracted amount for clearing of property; • Vendor #2 was paid in excess of 20K and there was no evidence of a signed contract. <p>Additionally, no revised or amended contracts were provided to the auditor.</p>	<p><u>Risk/Implication</u> Exposure to additional risks or liability as terms and conditions are not in writing.</p> <p><u>Recommendations</u> Contracts involving significant amounts should be in writing and signed.</p>	<p>SIAHDC management will ensure that all future goods/services for a significant amount will be in writing and signed.</p> <p>Sidney O. Ebanks Chairman</p>
<p>3. Lack of proper documentation</p> <p>During the course of the audit, it was noted that the Corporation paid insurance for the Project Manager but</p>	<p><u>Risk/Implication</u> This poses a risk to the Corporation of being liable for any injuries incurred during the</p>	<p>Management shows a copy of the Project Manager's signed contract which indicates</p>

Observation	Risk/Implication and Recommendation	Management Response
<p>there was no evidence of a signed insurance policy.</p>	<p>construction of the homes.</p> <p>Recommendations Contract compliance should be checked by management, particularly where it relies on insurance coverage by its suppliers and contractors.</p>	<p>appropriate insurance, however, this office cannot find a copy attached to his contract. Conversation with the Project Manager on September 26, 2018, the Project Manager stated that he would research his files for the copy of his insurance and forward it to SIAHDC. SIAHDC will continue to contact the Project Manager to ensure that he forwards the appropriate insurance to the office.</p> <p>Sidney O. Ebanks Chairman</p>
<p>4. Legal representation - sales contracts not reviewed by Lawyers (reiteration from prior year) Consistent with prior year, the Corporation has no legal counsel engaged throughout the financial period. Currently, housing sale agreements are based on templates used at inception. We also noted there were no legal representation reviewing the contracts between the builders and the Trust.</p>	<p>Risk/Implication The risk of reputational damage and financial loss to the Corporation.</p> <p>Recommendations Due to the small nature of the organization it may not be necessary to have legal representation review every housing sale agreement. However, an exercise should be taken to have the templates reviewed yearly to ensure they are up-to-date. There may be certain stipulations SIAHDC wishes to include or exclude from the agreements to reflect the current environment and experiences since inception.</p>	<p>SIAHDC have not been able to secure 'pro bono' legal representation but is continuing to obtain legal representation as soon as possible.</p> <p>Sidney O. Ebanks Chairman</p>