



## **PORTFOLIO OF THE CIVIL SERVICE**

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**Report to those charged with governance on the 2020 audit**

**2 September 2021**

*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 2020 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 2020 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 (2020 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](http://www.auditorgeneral.gov.ky).

## AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

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### 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 5<sup>th</sup> October 2020 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 on the 2020 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 26<sup>th</sup> April 2021.

## SIGNIFICANT FINDINGS FROM THE AUDIT

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## 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 2020, 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 2020. 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.

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#### MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

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#### 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.

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#### 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.

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#### 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.

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#### 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.
21. There were no other significant matters noted during the audit.

#### ACKNOWLEDGEMENTS

22. 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,



**Patrick Smith, CPA, CFE**  
Acting Auditor General

**APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS**

No.	Date	Name	Account No	Debit	Credit
1	12/31/2020	Computer Software	17120	181,423.83	
1	12/31/2020	Contributed Capital	35001		-181,423.83
To record transfer of BOTC software as at Dec 31, 2020					
2	12/31/2020	Accruals - Other	20150		-65,000.00
2	12/31/2020	Prior Period Adjustmen	32006	65,000.00	
To correct entry posted to prior period adjustments in error					
3	12/31/2020	Accruals - Other	20150	133.85	
3	12/31/2020	Accruals - Other	20150	473.00	
3	12/31/2020	Accruals - Other	20150	1,187.09	
3	12/31/2020	Accruals - Other	20150	211.41	
3	12/31/2020	Accruals - Other	20150	6,662.71	
3	12/31/2020	Accruals - Other	20150	300.00	
3	12/31/2020	Leave Passages	50067		-3,925.35
3	12/31/2020	Leave Passages	50067		-2,737.36
3	12/31/2020	Electricity	51405		-1,038.79
3	12/31/2020	Water	51420		-33.98
3	12/31/2020	Telephone Charges	51430		-133.85
3	12/31/2020	Telephone Charges	51430		-473.00
3	12/31/2020	Telephone Charges	51430		-3.65
3	12/31/2020	Telephone Charges	51430		-110.67
3	12/31/2020	Telephone Charges	51430		-211.41
3	12/31/2020	Maintenance - Public	54326		-300.00
Reverse 20150 accruals (paid)					
4	12/31/2020	Surplus Payable	23422		-316,297.39
4	12/31/2020	Surplus Repayment	32007	316,297.39	
To record transfer to surplus payable					
5	12/31/2020	Accruals - Other	20150	25,000.00	
5	12/31/2020	Professional Fees	54256		-25,000.00
To reverse 20150 accruals (paid)					



## CORRECTED MISSTATEMENTS CONT'D

No.	Date	Name	Account No	Debit	Credit
6	12/31/2020	Other Receivables	12012	59,982.00	
6	12/31/2020	Other Current Liabilit	23400		-59,982.00
To recognise receivable from Executive (Project Future)					
7	12/31/2020	Expense AP Accrual (Sy	20160	12,562.80	
7	12/31/2020	Official Travel - Expe	50224		-6,838.80
7	12/31/2020	Expensed (Attractive)	51086		-5,724.00
To correct overstatement of liabilities (P.O.'s paid before year end)					
8	12/31/2020	Buildings	17030	36,818.02	
8	12/31/2020	Office Equipment	17130		-36,818.02
To reconcile GL to FAR Cost and Accumulated Depreciation					
9	12/31/2020	Fixed Assets Mass Addi	17020	4,948.00	
9	12/31/2020	Professional Fees	54256		-4,948.00
To reclassify software cost - 50% deposit on Website Development					
10	12/31/2020	Other unearned coerciv	21400	292,700.00	
10	12/31/2020	Naturalisation and Reg	42027		-292,700.00
To reverse Jun to Dec 2020 post office revenue transferred to unearned revenue in error					
11	12/31/2020	KYD-Ministry and Portf	10101	40,344.21	
11	12/31/2020	Accruals - Other	20150		-10,369.21
11	12/31/2020	Naturalisation and Reg	42027		-29,975.00
To clear bank credits received but not posted at year end					
12	12/31/2020	Accounts Receivable -	12008		-18,334.00
12	12/31/2020	Internal Audit Service	42094	18,334.00	
To adjust receivable amount due from MEBC (SLA/IAS)					

**APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS**

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p><b>1. <u>Naturalization fee revenue / unearned revenue</u></b></p> <p>We saw several adjustments involving revenue and unearned revenue relating to naturalization fees although the accounting policy establishes that amounts received are recognised as unearned revenue until the Portfolio meets its performance obligations.</p> <p>However, in practice, the journal entries posted resulted in transactions being initially recorded as revenue, and a period-end adjustment made to the account for what is unearned at that date.</p> <p>Corollary, we have reported in significant accounting practices that these deficiencies could have been affected by the process changes described in that section.</p>	<p><b>Risk/Implication</b></p> <p>Revenue and unearned revenue could be misstated.</p> <p><b>Recommendation</b></p> <p>Management should ensure that payments received are first recorded as unearned revenue and transferred to revenue when the criteria for recognition is met.</p>	<p>Recommendation accepted.</p> <p>Notes:</p> <p>It should be noted that the monthly journals were occurring to recognize the portion that was unearned and not only at the end of the period or calendar year as suggested in the auditor’s observations.</p>	<p>31<sup>st</sup> December 2021</p>
<p><b>2. <u>Purchase orders are not being cleared/adjusted (PY Reiteration)</u></b></p> <p>Purchase orders (PO) included in the 20160 expense AP accrual account were 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 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></p> <p>Accruals could be overstated; and could result in double payment.</p> <p><b>Recommendation</b></p> <p>Management should ensure that invoices received are first matched against the open purchase orders before processing and only start a new transaction if a PO is not existing.</p> <p>Also, management should periodically review the open purchase order report to determine their validity and completeness, particularly at year-end.</p>	<p>Recommendation implemented.</p> <p>Notes:</p> <p>1. This practice has been in place historically; however, we recognise and acknowledge that the required matching was not done completely in all instances. The primary issue was that not all PO lines items were being matched to the invoice, resulting in residual balances remaining unmatched. This has now been resolved.</p> <p>2. The finance team, in consultation with the Ministry of Finance, undertook a major clean-up exercise to rectify this issue.</p>	<p>Effective immediately</p>

		3. The finance team has historically reviewed the open PO report monthly. However, we now review said report in conjunction with the AP and PO Accrual Reconciliation Report as we have found this to be more effective.	
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