

Audit Completion Report

Falkland Islands Tourist Board - Period ended 30 June 2016

PUBLIC

24 November 2016



Strictly private and confidential

Mazars LLP
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Those charged with governance
Falkland Islands Tourist Board
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24 November 2016

Ladies and Gentlemen

Audit Completion Report – Period ended 30 June 2016

We are delighted to present our Audit Completion Report for Falkland Islands Tourist Board for the period ended 30 June 2016. The purpose of this document is to summarise our audit conclusions.

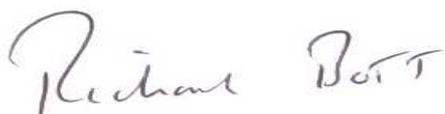
The scope of our work, including identified significant audit risks and areas of management judgement was outlined in our Audit Strategy Memorandum sent out in September 2016. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and areas of management judgement remain appropriate;

- Staff changes
- Potential misstatement of income
- Management override of controls
- Depreciation
- Accruals and prepayments

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on +44 (0)117 928 1700.

Yours faithfully



Richard Bott

Mazars LLP

Contents

| | |
|---|----|
| 01 Executive summary | 2 |
| 02 Significant findings | 3 |
| 03 Internal control recommendations | 7 |
| 04 Summary of misstatements | 10 |
| Appendix A – Draft management representation letter | 11 |
| Appendix B – Draft audit report | 16 |
| Appendix C – Independence | 17 |

This document is to be regarded as confidential to the Board Members of The Falkland Islands Tourist Board. It has been prepared for the sole use of the Board Members of the Falkland Island Tourist Board. No responsibility is accepted to any other person in respect of the whole or part of its contents. Before this document, or any part of it, is disclosed to a third party, our written consent must first be obtained

01 Executive summary

Purpose of this document

This document has been prepared to communicate the findings of our audit for the period ended 30 June 2016 to the Board Members of the Falkland Islands Tourist Board and forms the basis for discussion at the Board meeting in December 2016.

Our communication with you is important to:

- Share information to assist both of us to fulfil our respective responsibilities;
- Provide you with constructive observations arising from the audit process;
- Ensure as part of the two-way communication process we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing;
- Receive feedback from yourselves as to the performance of the engagement team.

Section 3 sets out internal control recommendations and Section 4 sets out audit misstatements; total unadjusted misstatements total £nil.

Principal conclusions and significant findings

As outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK and Ireland) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 2 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum of which the principal ones were:

- Staff changes;
- Potential misstatement of income;
- Management override of controls;
- Depreciation; and
Accruals and prepayments.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the period ended 30 June 2016.

At the time of preparing this report, there are no significant matters outstanding.

At the time of issuing this report and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, as set out in Appendix B.

02 Significant findings

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding the significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 6 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

Staff changes

Description of the area of management judgement

During the year there have been a number of changes to the accounting function of the entity including a number of changes in book keeper during the year.

Such changes will undoubtedly have some short term impact on the underlying control environment and could mean that some knowledge may be lost.

How we addressed this area of management judgement

We considered adequacy and application of the overall control framework, in particular handover and continuity arrangements where new staff have been appointed.

We tested the controls around the time of staff changes to ensure that they were operating adequately.

We discussed with new personnel what changes they have implemented to the controls following their appointment.

Audit conclusion

Controls testing was performed during our audit work and it was agreed that there is a sufficient control environment and controls are working effectively.

Discussion took place with new personnel and it was agreed that certain controls were going to be reviewed post year end.

Potential misstatement of income

Description of the risk

As with all audits there is a rebuttable presumption under the International Auditing Standard that there is a significant risk of fraud in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when the full risk and reward of the ownership of an asset has passed.

How we addressed this risk

We reviewed material transactions during the period to ensure that they are treated correctly and recognised in the correct accounting period.

Audit conclusion

Material transactions were reviewed during the audit and our work indicated that turnover was materially correct.

Management override of controls

Description of the risk

The International Standards on auditing presume that management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a mandatory significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business;
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements; and.
- Consideration of changes to the control environment and review of expenses in line with accounting procedures.

Audit conclusion

Our testing did not find any evidence which would suggest controls have been overridden.

Depreciation

Description of the area of management judgement

Depreciation of fixed assets over their useful lives.

How we addressed this area of management judgement

We reviewed depreciation charges to ensure they are reasonable and agree with the entity's policy.

Audit conclusion

During the fieldwork we have recalculated the depreciation for the period and our work indicated that depreciation was in line with the Board's policy.

Accruals and prepayments

Description of the area of management judgement

Accruals and prepayments.

How we addressed this area of management judgement

We tested the calculations of material accruals and prepayments to ensure that costs are allocated to the correct accounting period.

Audit conclusion

Accruals and prepayments were reviewed during the audit, an adjustment was made for the calculation of one prepayment. Following this adjustment it would appear that prepayments and accruals are materially correct.

Accounting policies and disclosures

We have reviewed the Falkland Islands Tourist Boards accounting policies and disclosures and concluded they comply with the relevant financial reporting framework.

Significant matters discussed with management

Holiday and Time off in Lieu (TOIL)

During the course of our work we reviewed the payroll costs incurred by the Tourist Board, including the costs accrued at the period end. As part of this work we identified the Director of International Communications and Markets had not taken any annual leave. This has resulted in there being a carry forward of annual leave of 37.5 days at the end of the financial period. In the UK there is a legal requirement for all staff to take 5.6 weeks (28 days) paid holiday per year (including bank holidays) when the employee is contracted to work 5 days per week per year. As this employee is operating out of the UK, we recommend that management ensure that at least the statutory minimum leave is taken per annum

We were pleased to note that, whilst some local based staff also had holiday carried forward of an amount higher than expected at the end of June 2016, a significant amount of this had been taken post year end.

PAYE and NIC

Following discussions we understand that the Director of International Communications and Markets, who is based in London, is paid Gross rather than being paid through the payroll and suffering the deductions of either local or UK payroll taxes.

It would be expected, that unless a person was deemed to be self-employed, they would be liable for the payment of employment taxes in the UK when they spend more than 183 days there in the tax year or where their only home was in the UK (owned, rented or lived in) for more than 91 days and they spent more than 30 days there in total. Our review would indicate that the Director of International Communications and Markets meets the definition of an employee as they have a contract or employment, they get paid holiday, the business provides them with the tools necessary for them to do their role and they only work for the Tourist Board. Therefore, as such, we would expect local taxes and NIC to be deducted at source from the payroll.

We understand from discussions however, that the Director of International Communications and Markets is responsible for their own taxes and the Board are relying on such payments to be made locally. However, should HMRC undertake a review of the payroll records for the Tourist Board, the Board may be liable for Employers NIC at 13.8% on all earnings over £676 per month for the tax year 2016/17 and could be liable for unpaid PAYE deductions if it was identified that the Director of International Communications and Markets had not been paying local taxes and was, in fact, an employee of the Board. This would be plus interest and penalties.

We would therefore strongly advise the Board to obtain confirmation from the Director of International Communications and Markets that such taxes have been paid in the UK under the Self-assessment system in place and to consider, through obtaining legal advice, whether the Director of International Communications and Markets meets the definition of an employee and therefore employers NIC payments are due.

We have raised included this point as a specific point within the letter of representation.

tatus

The new corporation was set up on the 1 January 2015 and all funds, employees, property, debts, creditors and liabilities etc. were transferred from the old body to the new corporation correctly.

Significant difficulties during the audit

There were no significant difficulties arising as a result of the audit and we thank staff for all their assistance during the audit process.

04 Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

| Priority ranking | Description | Number of issues |
|------------------|--|------------------|
| 1 (high) | In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately. | 0 |
| 2 (medium) | In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future. | 0 |
| 3 (low) | In our view, internal control should be strengthened in these additional areas when practicable. | 1 |

Other deficiencies in internal control – Level 3

Contracts of Employment

During our audit work we tested a sample of joiners during the year to their contract of employment. For a sample of two joiners, their employment contracts were not signed before they handed in their resignation letters.

Potential effects

Even though these two employees left after a short period of time, they did not have a signed contract of employment on file which means there could have been legal issues arising with regards to their holiday entitlement and working hours etc.

Recommendation

We recommend that all employees' contracts are signed before their start date.

Management response

Agreed, going forward we will ensure that this is the case.

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Purchase orders (PO)

During our audit procedures it was noted that purchase orders, where appropriate, were not always signed.

Potential effects

By failing to have clearly approved purchase orders, there is a risk that non business purpose goods could be ordered and received. This could lead to a loss of funds.

Recommendation

We recommend that all purchase orders are signed by an authorised person and then matched to the purchase invoice before payment is processed.

Management response

The entire system of purchase orders is being reviewed. Closer attention has been paid to PO sign off, and with the introduction of the new version of Sage all POs will be raised on this system rather than the current, stand-alone system.

Update June 2016

During our testing performed in our audit work, all POs had been signed by the authorised person except for one instance where the PO had not been physically signed, however the PO had been approved so there was no issue.

Matter Resolved

Stock count

Due to the fact that this is a shortened year, the Board did not complete a stock take at the period end. To obtain the stock position for the financial statements the Board staff had taken the stock position from the prior period end date and then performed a roll forward to the current period end date using reports obtained from the EPOS system.

At the audit we performed a stock count and then performed a roll back to the period end date using stock movement reports produced from the same EPOS system.

The two positions were significantly different and this led us to believe that the stock movement reports were unreliable. Upon further investigation it was discovered that the stocks reports were picking up errors leading to till 3 sales not always showing on the report.

Potential effects

Whilst we appreciate that the stock is highly visible, there is a risk that by not performing regular stock counts and not being able to obtain reliable information from the stock system, this could lead to difficulties with identifying the true level of stock holdings, especially when there is a perceived increased likelihood of theft at certain times of the year.

Recommendation

We recommend that the Board ensure stock counts are performed and agree the count to the EPOS system.

Management response

Stock checks, both at year-end and during the year, will be undertaken. In addition the current EPOS system is being reviewed to ensure it is fit for purpose.

Update June 2016

A full stock count was performed at year end. The stock count was also attended by a third party being Consultancy Services Limited. A roll back was also performed during our audit work onsite from the date onsite to the year end date using stock movement reports from the EPOS system. The two positions agreed and therefore we could take assurance that the stock system is working effectively with the correct stock listings on it.

Matter Resolved

Personnel contract

Our audit procedures highlighted that, for a senior employee, their new contract did not reflect fully all payments they received in respect of their employment.

Potential effects

By failing to ensure that all contracts are reviewed to ensure that they contain the necessary information, there is a risk the Board may find that they are in a contractual arrangement which is not beneficial, or indeed intended, by the Board.

Recommendation

We recommend that all contracts have a formal review by at least two people to ensure the interpretation is understood by all. In addition any amendments to a contract at a later date should be formally documented at Board level and agreed by both parties.

Management response

A more rigorous approach to contract review will be developed.

June 2016 Update

Payroll testing was carried out during our audit work and for a sample of employees their salary paid was agreed to their signed contract of employment. All employees tested received the correct amount during the period. A new contract for a senior employee was also reviewed and it was agreed that the correct remuneration had been paid during the period.

Matter Resolved

05 Summary of misstatements

We set out below the misstatements identified during the course of the audit, above the level of trivial, for adjustment. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements June 2016

All misstatements found during the audit were adjusted by the Falkland Islands Tourist Board

Adjusted misstatements June 2016

| | P&L | | BS | |
|--|------------|---------------|---------------|------------|
| | Dr £ | Cr £ | Dr £ | Cr £ |
| 1 Dr Fixtures & Fittings depreciation | 973 | | | |
| Cr Fixtures & Fittings Accumulated depreciation | | | | 973 |
| Being to correct depreciation for a number of assets | | | | |
| 2 Dr Stock | | | 19,350 | |
| Cr COS | | 19,350 | | |
| Being correction to incorrectly cast stock report | | | | |
| 3 Dr Other Creditors | | | 5,100 | |
| Cr Bank Charges | | 5,100 | | |
| Being adjustment for incorrectly posted June 201 salary | | | | |
| 4 Dr Prepayment | | | 1,500 | |
| Cr On-line Advertising | | 1,500 | | |
| Being correction to prepayments for World Travel Mart in November 2016 | | | | |
| Total | 973 | 19,350 | 19,350 | 973 |

Appendix A – Draft management representation letter

Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Dear Sirs

Falkland Islands Tourist Board - audit for period ended 30 June 2016

This representation letter is provided in connection with your audit of the financial statements of Falkland Islands Tourist Board for the period ended 30 June 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

We confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you.

Our responsibility for the financial statements and accounting information

We believe that we have fulfilled our responsibilities, as set out in the audit engagement terms, for the true and fair presentation and preparation of the financial statements in accordance with applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility to provide and disclose relevant information

We have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the company you determined it was necessary to contact in order to obtain audit evidence.

We confirm as board members that we have taken all the necessary steps to make us aware, as board members, of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as we are aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

We confirm that all transactions undertaken by the company have been properly recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all management and shareholders' meetings, have been made available to you.

Stock

We confirm that stock is valued at the lower of cost and net realisable value. Stock that is slow moving or obsolete has been written down to net realisable value.

Accounting policies

We confirm that we have reviewed the accounting policies applied during the year in accordance with the requirements of applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and consider them appropriate for the year.

Accounting estimates, including those measured at fair value

We confirm that any significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unassisted claims, that may result in litigation against the company have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Laws and regulations

We confirm that we have disclosed to you all those events of which we are aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

Fraud and error

We acknowledge our responsibility as board members of the company, for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We have disclosed to you:

- all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the entity involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Cash Sales

We confirm that we have considered the completeness of all cash sales and confirm we consider them to be complete and included in full in the financial statements.

Property Title

We confirm that all the assets (including the Jetty) included within the accounts, the Tourist Board is the legal owner and title deeds are available.

Employment taxes

We confirm that we have considered the status of the Director of International Communications and Market and are satisfied that all appropriate employment taxes have been paid in the year.

Related party transactions

We confirm that all related party relationships, transactions and balances, (including sales, purchases, loans, transfers, leasing arrangements and guarantees) have been appropriately accounted for and disclosed in accordance with the requirements of applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

We have disclosed to you the identity of the company's related parties and all related party relationships and transactions of which we are aware.

Impairment review

To the best of our knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the fixed assets below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Charges on assets

All the company's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

Future commitments

We have no plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Provisions

We confirm that we have disclosed all events that could give rise to a potential provision.

Accrued income

We confirm that in line with the agreement with the Falkland Island Government any unspent subvention at the year end can be carried forward into future years. No repayment is necessary.

Subsequent events

We confirm all events subsequent to the date of the financial statements and for which the applicable Falkland Islands law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

Ultimate parent company

The ultimate controlling party of the Falkland Islands Tourist Board is the Falkland Islands Government, by virtue of its revenue funding.

Unadjusted misstatements

We confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this letter as an Appendix.

As discussed, approved and minuted by the board of trustees at its meeting on

Member

Appendix A

Schedule of unadjusted misstatements

There were no unadjusted misstatements as a result of the audit work carried out.

Appendix B – Draft audit report

Independent auditor’s report to the members of Falkland Islands Tourist Board

We have audited the financial statements of Falkland Islands Tourist Board for the period ended 30 June 2016 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is Falkland Islands Tourist Board Ordinance 2014 and the accounting policies set out therein.

Respective responsibilities of members and auditor

As explained more fully in the Members' Responsibilities statement set out on page 2, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable Falkland Islands law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's members as a body in accordance with the British Companies Act 1948 and 1985, as it applies in the Falkland Islands by virtue of section 2(1)(c) of the Companies (Amendment) Ordinance 2005. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed: the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition we read all financial and non-financial information in the Board members' report to identify inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our audit report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company’s affairs as at 30 June 2016 and of its result for the year then ended;
- have been properly prepared in accordance with Falkland Islands Law and United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Falkland Islands Tourist Board Ordinance 2014.

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Appendix C – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.