JUDICIAL ADMINISTRATION

Report to those charged with governance on the 2025 audit

July 2026

To help the public service spend wisely

TABLE OF CONTENTS

REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2025 financial statements of the Judicial Administration ("the Administration"). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Administration in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:

   - the auditor's 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 for 2025 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 (2021 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.

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 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 Administration'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 Administration. We are currently reviewing the annual report containing the Administration's audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Administration of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the engagement letter presented to the Acting Court Administrator on 21 August 2025, and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATIONS

8. We have issued an unmodified auditor's report on the financial statements for the year ended 31 December 2025. The Auditor General's Report has an Emphasis of Matter paragraph which points to the supplementary appropriations that affected the Administration's budgeted output for the year.

9. Appendix 1 summarises the misstatements identified during the audit that were corrected by management. The total value of corrected misstatement amounted to $3.8M. These relate to reversing the Kirk house lease from IPSAS 43 application as these leases did not meet the requirements to be disclosed under the same. The audit concluded without any uncorrected misstatements.

10. As part of the completion of our audit, we sought written representations from management on aspects of the accounts and judgments and estimates made. Management provided us with representations in respect of our financial statement audit on 30 April 2026.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Administration's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

12. Generally accepted accounting principles provide for the Administration to make accounting estimates and judgments about accounting policies and financial statement disclosures. We are not aware of any areas where the significant accounting practices are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Administration's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were matters which required management to make significant judgments or which required significant estimates such as: estimated credit losses from receivables from exchange transactions, other receivables, property and equipment, intangible assets and accruals and other liabilities.

GOING CONCERN

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 Administration's ability to continue as a going concern.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

15. Significant deficiencies and other significant findings are discussed in Appendix 2 with management responses. Non-significant findings are reported separately to management.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognise that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the Administration 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.

17. They are also responsible for establishing and maintaining controls pertaining to the Administration'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.

18. 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.

19. 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.

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No significant difficulties were encountered during the course of our audit.

DISAGREEMENTS WITH MANAGEMENT

22. We had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

23. As outlined in Note 18 of the financial statements, in 2025, approval was given by the Portfolio of the Civil Service to transfer $950K from personnel cost to supplies and consumables. This transfer did not fall under any of the supplementary budget approvals requiring further approval under the Public Management and Finance Act (PMFA).

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

ACKNOWLEDGEMENTS

25. We would like to express our thanks to the staff of the Administration for their help and assistance during the audit of this year's financial statements.

Yours sincerely,

Patrick Smith, CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Account description and adjustment details	Account number	Account name	Debit	Credit	Identified by: (Client/ OAG)
Adjustment for lease of Kirk House whose lease was determined not to be a lease.	16105	Rights-of-use Assets		(2,423,926)	OAG
	16112	Accumulated Depreciation Rights	76,836		
	29704	Long Term Lease Liabilities	2,423,926		
	29704	Long Term Lease Liabilities	25,352		
	29704	Long Term Lease Liabilities		(516,780)	
	58001	Lease of Sites or Buildings	516,780		
	58200	Lease Interest		(125,352)	
	60206	Depreciation Rights-of-use Asse		(476,836)	
	12402	Sale of Outputs (Goods and Serv		(85,408)	
	46001	Outputs Sold to Cabinet (EXCO)	85,408		
	12402	Sale of Outputs (Goods and Serv	35,720		
	16105	Rights-of-use Assets	168,990		
	16112	Accumulated Depreciation Rights		(25,849)	
	29704	Long Term Lease Liabilities		(178,860)	
	46001	Outputs Sold to Cabinet (EXCO)		(35,720)	
	58200	Lease Interest	9,870		
	60206	Depreciation Rights-of-use Asse	25,850		

APPENDIX 3 – INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	Financial management				
1. Deficiencies in Output Revenue and Performance Monitoring The Judicial Administration uses the cost recovery method of Output Revenue recognition. It has underdelivered on 24 of the 39 measures related to its agreed outputs. The variances and their impact on actual operations and output revenues have not been reviewed systematically during the year.	***Implications/risks*** Reduced transparency regarding the Administration's output delivery and performance. Inability to identify operational issues early and take corrective action. Increased risk of inaccurate or incomplete performance reporting to stakeholders. ***Recommendations*** Management should establish a process for collecting, reviewing, and	N	Y	The points raised have been noted. This matter remains under review by senior management. Management's comments will be provided at a later date.	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
Furthermore, performance information were not available within the interim audit timeline. It was also not clear if there were internal timelines.	approving performance information, including clear timelines. Also, management should periodically assess the differences between planned and actual Outputs and evaluate the impact on Output Revenue and to its purchase agreement commitments. Additionally, management should ensure that the Revenue Reports are available on a timely basis.				
2. Expired Lease Agreements for Kirk House Premises After the expiry of 2019-2024 lease contracts with the lessors of the Kirk	**Risk/ Implication:** • Uncertainty of tenancy, including potential changes in terms or	**N**	**Y**	The expectation was that the Kirk House lease would be renewed. The lease renewal process commenced in 2024, with the	**NA**

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
House, the Judicial Administration continues to occupy the premises and and pay lease on a month-to-month basis, while the lease agreement is expired and no new instrument is in place. Furthermore, management prepared its financial statements reflecting a five-year lease right of user assets and lease liabilities despite not having leases in place after the aforementioned expiration of leases. These were corrected during the audit.	termination by the landlord; • Financial exposure if rental rates or conditions are revised unfavourably; • Risk of non-compliance with IFRS 16 due to the absence of enforceable lease terms; • Material misstatement of lease liabilities and right-of-use assets; • Reduced ability to plan long-term occupancy and operational needs **Recommendation:** Management should implement corrective action to avoid the uncertainty from not having a written lease agreement that complies			Lands and Survey Department being notified of the upcoming lease expiration in January 2025. This is consistent with our usual practice of advising them of leases requiring renewal. Discussions and negotiations with the landlord, together with internal senior management deliberations, continued during that time. However, due to unforeseen circumstances that arose in March/April 2026, it was subsequently determined that the lease would not be renewed. It should be noted that the circumstances surrounding the Kirk House lease were exceptional. We are usually diligent in identifying upcoming lease expirations and notifying the appropriate authorities on time; however, this was an exceptional circumstance.	

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Recommendation accepted by Management (Y/N)	Management Response	Implementation Date
	with the Land Registration Act. Management should likewise ensure that its management accounts and financial statement drafts submitted for audit reflect compliance with existing IPSAS.				