MINISTRY OF FINANCIAL SERVICES AND COMMERCE

REPORT TO THOSE CHARGED WITH GOVERNANCE ON THE 2025 AUDIT

JULY 2026

To help the public service spend wisely

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2025, financial statements of the Ministry of Financial Services and Commerce (the 'Ministry'). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Ministry in sufficient time to enable them to take 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 2025 financial statements that we consider 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 proactively release all final reports through our website: www.auditorgeneral.gov.ky.

AUDITOR'S RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR'S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING (ISAs)

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 that came to our attention during the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 21 August 2025. 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 have read the other information contained in the Ministry's annual report and noted that it is materially consistent with information appearing in the financial statements or our knowledge of the operations of the entity. We have not reviewed other documents containing the entity'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 REPRESENTATIONS

8. We have issued an unmodified audit report on the 31 December 2025 financial statements.

9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. 11 corrected audit adjustments have been made to the financial statements, with a gross impact of $995,379. A summary of unadjusted misstatements is attached in Appendix 2. One unadjusted misstatement with a gross impact of $65,866.00 was noted for the year.

10. As part of the completion of our audit, we obtained written representations from management on aspects of the accounts, judgments, and estimates made. These representations were provided to us on 1 April 2026.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

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

12. Generally accepted accounting principles provide for the entity 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 Ministry's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments, or which required significant estimates. Management has made judgments and estimates regarding the following financial statement items:

- Depreciation of property, plant and equipment – **$87,731**
- Amortisation of intangible assets – **$30,495**
- Depreciation of right-of-use asset – **$288,465**
- Lease liabilities - **$3,077,843**
- Rights-of-use Assets – **$3,267,219**

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any events and conditions that may cast significant doubt on the Ministry's ability to continue as a going concern.

INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

15. Internal control matters and significant findings are noted in Appendix 3, along with management's response.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize 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 entity and with management. It is important that management, under the oversight of those charged with governance, places a strong emphasis on fraud prevention and deterrence.

17. They are also responsible for establishing and maintaining controls pertaining to the Ministry'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. When exercising oversight responsibility,

those charged with governance should consider the potential for management to override controls or exert other inappropriate influences 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 the 2025 audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

21. No difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

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

ACKNOWLEDGEMENTS

24. We would like to express our thanks to the staff of the Ministry for their help and assistance during the audit of this year’s financial statements. This enabled us to provide an audit report within the agreed timetable.

Yours Sincerely,

Patrick O. Smith CPA, CFE
Auditor General

APPENDIX 1 – SUMMARY OF ADJUSTED MISSTATEMENTS

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
1	Furniture & Fittings	17100	2,550.00		
1	Accumulated Depreciation	17105		(94.44)	
1	Office Equipment	17130	1,482.36		
1	Accumulated Depreciation	17135		(339.71)	
1	Expensed (Attractive assets)	51086		(4,032.36)	
1	Depreciation Furniture	60008	94.44		
1	Depreciation Office	60011	339.71		
	To capitalise expensed items				OAG
2	Accrued - Salary & Wages	22107		(2,442.72)	
2	Duty Allowance	50031	2,181.00		
2	Government Pension Contribution	50080	130.86		

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
2	Pension Contribution	50082	130.86		
2	Accrued - Salary & Wages	22107		(2,442.72)	
2	Duty Allowance	50031	2,181.00		
	To record the accrual of duty allowance for 2025				MFSC
3	Accrued Prepayments	12009		(32,778.68)	
3	Accruals - Other	20150	32,778.68		
	To reverse entries posted to accruals in error				MFSC
4	Long service leave accrual	22100		(3,543.90)	
4	Accrual -Annual Leave	22106	682.94		
4	Accrual -Annual Leave	22106		(346.51)	
4	Movement in Annual Leave	50150		(682.94)	
4	Movement in Annual Leave	50150	3,890.41		

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
	To adjust payroll liability as at 31 December 2025				MFSC
5	Vehicles	17070		(41,181.00)	
5	Accumulated Depreciation	17075	41,181.00		
	To record the disposal of fully depreciated motor vehicles during the year				OAG
6	Accumulated Depreciation	17105		(1,901.59)	
6	Accumulated Depreciation	17115		(178.20)	
6	Accumulated Depreciation	17125		(11,293.17)	
6	Accumulated Depreciation	17135		(334.38)	
6	Depreciation Furniture	60008	1,901.59		
6	Depreciation Computer	60009	178.20		
6	Depreciation Computer	60010	11,293.17		
6	Depreciation Office	60011	334.38		

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
	To correct depreciation for the year				MFSC
7	Rights-of-use Assets	16105		(223,784.00)	
7	Accumulated Depreciation	16112	85,707.00		
7	Long Term Lease Liability	29704	241,123.70		
7	Long Term Lease Liability	29704		(109,612.10)	
7	Contributed Capital	35001		(6,868.97)	
7	Lease of Sites or Building	58001	109,612.10		
7	Lease Interest	58200		(10,470.73)	
7	Depreciation Rights-	60206		(85,707.00)	
	To reverse 2025 entries relating to short-term leases and reflect lease expense				MFSC
8	Other Receivables	12012	3,816.39		
8	Outputs Sold to Cabinet	46001		(3,816.39)	

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
	To reflect the cabinet revenue and receivable to cover the net expenditure for 2025				MFSC
9	Surplus Payable	23422	24,943.15		
9	Surplus Repayment	32007		(24,943.15)	
	To adjust surplus payable due to 2025 audit adjustments				MFSC
10	Other Receivables	12012	180,863.15		
10	Accruals - Other	20150		(180,863.15)	
10	Outputs Sold to Cabinet	46001		(180,863.15)	
10	Professional Fees	54256	180,863.15		
	To reflect the cabinet revenue receivable to cover the cost of professional fees for the LPA project				MFSC
11	Other Receivables	12012		(69,300.77)	
11	Accruals - Other	20150	69,300.77		
	To adjust overstated receivables				OAG

Number	Account description and adjustment details	Account Number	Debit	Credit	Identified by: (Client/ OAG)
Total			**995,379.01**	**(995,379.01)**	

APPENDIX 2 – SUMMARY OF UNADJUSTED MISSTATEMENTS

Ref no	Description	Assets	Liabilities	Equity	Income	Expenses
12	To reflect unrecorded bank debits	(65,866.00)	-	-	-	65,866.00
	Understated/ (Overstated)	**(65,866.00)**	**-**	**-**	**-**	**65,866.00**

APPENDIX 3 – INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
Non-compliance with Acts and Regulations					
Non-compliance with the Procurement Regulations Under the Procurement Regulation 16 (2022 Revision), an entity shall award a contract for procurement projects valued at two hundred and fifty thousand dollars or more on the advice of the Public Procurement Committee (PPC). The Ministry’s engagement with Brac Informatics lacks evidence of tendering or Public Procurement Committee (PPC) approval, as required by the Procurement	**Risk/Implication:** Without regularising the procurement of this contract in accordance with the Procurement Regulations, there is a risk that the Ministry will not get value for money from this contract. **Recommendation:** Management should engage with the Central Procurement Office to seek formal guidance on regularising the Brac Informatics contract. To address the recurring	Yes	Yes	Management acknowledges the audit observation. The Ministry has consulted with the Central Procurement Office and is currently working to establish a master-tendered contract in accordance with the Procurement Act and Procurement Regulations. The required procurement process has been initiated to ensure the engagement is regularised, complies with the applicable legislative requirements, and supports transparency,	Q4 - 2026

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
Regulations for projects exceeding two hundred and fifty thousand dollars. Despite a 2024 management commitment to review the arrangement, spending increased from an estimated $3.6 million to an estimated $4.4 million in 2025. While we observed that individual add-ons were processed as direct awards in accordance with the Procurement Regulations, the project value and the lack of a master-tendered procurement present a significant value-for-money risk.	nature of this finding, management should aim to finalise this within the following six months.			competition, and value for money.	
Value for money					

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
No valid lease agreements for renewed leases. During our audit, we observed that the lease agreement between Mini Warehouse and the Ministry had expired and had not been regularised through a procurement exercise, despite this being highlighted in the prior year's findings. No valid lease agreement is currently in place. Although there is no valid contractual agreement, rental payments to Mini Warehouse have continued, and the charges have increased over time. The total payments made in 2025 to Mini	**Risk/Implication:** Continuing rental payments without a valid lease agreement exposes the Ministry to financial and legal risks. In the absence of a valid contract, the Ministry has no enforceable basis to dispute rate increases, challenge service standards, or seek redress in the event of a dispute. **Recommendation:** Management should ensure that a valid lease agreement is in place with Mini Warehouse and that the procurement process is completed within six months to formalise the rental arrangement.	Yes	Yes	The Ministry is actively taking the necessary steps to address this matter by initiating the required procurement procedures in accordance with the applicable procurement regulations and policies. Upon completion of the procurement process, a valid lease agreement will be executed to formalise the arrangement. In the interim, rental payments have continued to ensure operational continuity and uninterrupted access to the storage facility. Management is committed to resolving this matter as a priority and will ensure that all future lease arrangements are supported by valid contractual agreements and comply with the established procurement requirements.	Q4 - 2026

Observation	Risk/Implication and Recommendation	Recurring issue (Y/N)	Observation accepted by Management (Y/N)	Management Response	Implementation Date
Warehouses for storage were $14,364 (2024: $14,172).					