



MINISTRY OF FINANCIAL SERVICES AND COMMERCE

Report to those charged with governance on the 2023 audit

May 2024

*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 2023 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 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 2023 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

AUDITOR’S 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 signed by management on 13 September 2023, 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 Ministry'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 Ministry. We have not reviewed any other documents containing the Ministry'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 audit opinion on the 2023 financial statements.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. Corrected misstatements amount to \$38k.
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 15 March 2024.

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. Generally accepted accounting principles provide for the Ministry 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.

12. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. Management have made significant judgments and estimates with regard to the following financial statements items:

- Depreciation of property, plant and equipment for \$180k.
- Doubtful debts provision for \$176k.

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 Ministry's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified a number of significant and other matters relating to internal controls as part of our audit. Details are included in Appendix 2 along with management's response.

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 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 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. 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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

19. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

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

ANY OTHER SIGNIFICANT MATTERS

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 Ministry of Financial Services and Commerce 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 CORRECTED AUDIT MISSTATEMENTS

Number	Name	Account No	Debit	Credit
1	Comp Time Expense	50155	19,079	
1	Comp Time Liability	22105	3,303	
1	Comp Time Liability	22105		(19,079)
1	Comp Time Expense	50155		(3,303)
Comp time balance client adjustment				
2	Other receivables	12012	3,008	
2	Surplus payable	23422	12,769	
	Outputs sold to Cabinet	32007		(3,008)
2	Surplus repayment	46001		(12,769)
To correct surplus payable to reflect adjustments posted – client adjustment				
Total			38,159	(38,159)

IMPACT OF CORRECTED MISTATEMENTS

Description	Assets	Liabilities	Income	Expenses	Equity
Understated/(Overstated)	3,008	(3,008)	(3,008)	15,776	(12,768)

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Non-compliance with the Procurement Regulations (2022 Revision).</p> <p><u>No evidence of tendering and PPC approval for Brac Informatics contract</u> No evidence of tendering or Public Procurement Committee (PPC) approval for the Brac Informatics contract. This contract was last tendered more than 13 years ago. \$3.1m was spent on this contract in 2023.</p> <p><u>No evidence of tendering and PPC approval for the Munk Policy and Law contract</u> There is no evidence of tendering on a contract with Munk Policy and Law that has been running since October 2019 with an expiration date of 30 June 2023. The contract expired in June 2023 and was extended until November 2023. The contract was worth US\$180k per annum, and thus, by the time the contract extension expired, a total of US\$795k or CI\$665k had been spent without obtaining the required PPC approval.</p>	<p>Risk/Implication: Possibility of not getting value for money from these contracts.</p> <p>Recommendation: Management should ensure that the Ministry complies with the Procurement Act and Procurement Regulations. In particular, the PPC should approve all purchases above the \$250k threshold.</p>	<p>The contract with Brac Informatics predates the Procurement Act and Regulations. The current arrangement is being reviewed, however, given the complexity of the system, this is a lengthy process to address a critical system that underpins the operation of the financial services industry.</p> <p>A review of procurement processes and all contracts across the Ministry was completed, and refresher training with the CPO undertaken with senior management and Ministry EPC members.</p>	<p>May 2024</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>2. Inadequate follow-up of accounts receivables balances.</p> <p>During the audit, we did not observe a robust collection policy to address the Ministry's past-due third-party receivables. As of 31 December 2023, the outstanding balance over 180 days was \$176k.</p>	<p>Risk/Implication:</p> <p>Inadequate follow-up of accounts receivable balances could result in outstanding balances becoming uncollectable, which would then cause financial loss to the Ministry.</p> <p>Recommendation:</p> <p>Management should step up its debt collection efforts so as to minimise financial loss from delinquent debts.</p>	<p>The receivable balances relate to a department that was transferred out of the Ministry in July 2021. There were various attempts made to collect the outstanding balances but those attempts were unsuccessful. A full provision for doubtful debt was made in the 2023 accounts for the amounts outstanding. These amounts have subsequently been written off.</p>	<p>May 2024</p>