



**THE MINISTRY OF INVESTMENT, INNOVATION AND
SOCIAL DEVELOPMENT**

**Report to those charged with governance on the 31 December 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 Investment, Innovation and Social Development (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 2023 financial statements 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.

AUDITORS 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 dated 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, in documents containing audited financial statements, we have read the other information contained in the Ministry's annual report to consider whether such information is materially inconsistent with information appearing in the financial statements or our knowledge of the operations of the Ministry. We have not reviewed any other documents containing 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 issued an unqualified opinion on the 2023 financial statements.
9. A summary of audit adjustments made to the financial statements, totaling to \$1,502,472, is attached in Appendix 1. There were no 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 these representations, which formed part of our audit evidence, on 30 April 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 not aware of any areas where the significant accounting practices have changed from previous year or are not consistent with general industry practice. In addition, we are not aware of any new or controversial accounting practices reflected in the Ministry's financial statements.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

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

- Depreciation of property, plant and equipment and amortization of intangible assets.
- Provision for expected credit losses.
- Provisions and contingent liabilities.

GOING CONCERN

13. 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.

MATERIAL WEAKNESSES IN INTERNAL CONTROL

14. Significant deficiencies in internal control are noted in Appendix 2. No other control deficiencies have been identified and communicated separately to management.

FRAUD OR ILLEGAL ACTS

15. 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 entity'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.

16. 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.
17. No fraud or illegal acts came to our attention as a result of our audit.

OTHER SIGNIFICANT MATTERS

18. As outlined in Note 1b of the financial statements, the Cabinet authorised several reallocations of funding from the Ministry under section 11(5) of the Public Management and Finance Act (2020 Revision) (PMFA). The reallocations reduced the Ministry's outputs and equity budgets by \$1.5 million and \$395,000 respectively. A supplementary Appropriations Bill for the funding was not introduced in Parliament by 31 March 2024 as required by section 11(6) of the PMFA.
19. There were no other significant matters noted during the audit.
20. No serious difficulties were encountered in the performance of our audit.
21. We have had no disagreements with management resulting from our audit.

ACKNOWLEDGEMENTS

22. 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.

Yours sincerely,



Sue Winspear, CPFA
Auditor General

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Num	Acc Num	Account Name	Dr	Cr
1	20195 12009	Accounts payable special Accrued prepayments <i>Adjusting PO # 4654 - ZOOM support renewal paid in 2024</i>	96,969	96,969
2	20195 12009	Accounts payable special Accrued prepayments <i>Adjusting PO # 4738 - KING COMPUTER CORP ZeroFox subscription paid in 2024</i>	36,307	36,307
3	50029 22017	Acting allowance Accrued - salary and wages <i>Acting allowance short paid for employee in Nov & Dec 2023 payroll</i>	991	991
4	20195 12009	Accounts payable special Accrued prepayments <i>Adjusting Invoice # 270019055 - Oracle ULA Year 3 support paid in 2024</i>	926,010	926,010
5	54351 20150	Computer software maintenance Accruals - other <i>Dec 2023 accrual Oracle Caribbean Invoice # 270019055 - ULA Year 3 support</i>	77,168	77,168
6	13201 17021	Other inventories for use within one year Construction in progress <i>Adjusting National eID reprinted smartcards - SELP Invoice 44559 (PO# 901)</i>	41,875	41,875
7	17021 20150	Construction in progress Accruals -other <i>Adjustment for Difference in SELP SAS PM-9 Integration accrual</i>	9,045	9,045

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS CONTINUED

Num	Acc Num	Account Name	Dr	Cr
8	51086 13201	Expense - attractive assets Other inventories for use within one year <i>Adjusting inventory for 100 smartcards shipped to SELP for testing in 2023</i>	1,047	1,047
9	44001 21500	Donations received Other unearned departmental revenue <i>Adjustment to reverse donations received</i>	8,670	8,670
10	20150 32006	Accruals - other Prior period adjustments <i>Reversal of accrual items for DCFS prior to June 2021</i>	12,408	12,408
11	13201 32006	Other inventories for use within one year Prior period adjustment <i>Adjusting entry made to correct inventory that was incorrectly expensed in the PY</i>	26,172	26,172
12	32006 12404	Prior period adjustments Debtors <i>Adjusting entry made to correct Inv# 91401 reversed in 2022 in error</i>	49,767	49,767
13	20150 32006	Accruals - other Prior period adjustment <i>Reversing Balance of 2021 Audit Fees</i>	25,173	25,173
14	32006 54351	Prior period adjustment Computer software maintenance <i>Reversing Oracle Subscription renewal for Client HSA. (Health Services Authority)</i>	117,520	117,520

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS CONTINUED

Num	Acc Num	Account Name	Dr	Cr
15	21500 44001	Unearned revenue Donation income <i>Adjustment to correct the classification of donations received, without the condition of return to donor</i>	9,000	9,000
16	21500 44001	Unearned revenue Donation income <i>Adjustment to correct the classification of donations received, without the condition of return to donor</i>	10,000	10,000
17	21500 44001	Surplus repayment Surplus payable <i>Adjustment to effect the change in surplus from adjustments posted</i>	54,350	54,350
			1,502,472	1,502,472

APPENDIX 2 - INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS

Observations	Risks/Implication & Recommendations	Management Accepts Finding?	Management Response
<p>1. <u>Non-compliance with the Personnel Regulations (2022 Revision) (the “Regulations”)</u></p> <p>Section 31(2) of the Regulations states that staff cannot be employed in acting positions for more than 12 months without the positions having been advertised as interim positions.</p> <p>We noted that seven employees had been employed in acting positions for more than 12 months but their positions had not been advertised as required by the Regulations.</p>	<p>Risk/Implication Non-compliance with the Regulations.</p> <p>Recommendation Management should ensure that staff do not act in positions for more than 12 months unless the positions are advertised as required by section 31(2) of the Regulations.</p>	<p>Accepted</p>	<p>The Ministry accepts the recommendation. It should be noted, however, that certain circumstances will make full compliance impractical. These includes, not exclusively, not being able to acquire or train suitable resources in the time frame, changes in the organization, potential or likely changes as a result of elections, etc.</p>
<p>2. <u>Non-compliance with contract review requirements</u></p>	<p>Risks/Implications The absence of Attorney General review may result in inadequate protection of the</p>	<p>Accepted</p>	<p>The Management of the Ministry will put in place processes to ensure</p>

<p><i>Governance and Management Circular 2 of 2022 – CIG Guidance – Contracts and Legal Advice</i> requires Civil Service entities to submit all contracts with a value greater than \$10,000 to the Attorney General’s Chambers (AGC) for review.</p> <p>We noted two instances where the Ministry did not submit contracts to the AGC for review before signing them. The value of these two contracts was about \$700,000.</p>	<p>Ministry’s interests and rights in the contract. Legal experts can provide valuable insights and guidance on potential risks, liabilities, and loopholes in the agreement that may not be apparent to non-legal professionals. Without this expert input, the Ministry may be exposed to unforeseen legal challenges, disputes, or financial losses.</p> <p>Recommendation Management should ensure the AGC reviews all contracts subject to the contract review requirements before the Ministry signs them.</p>		<p>compliance by the departments under its remit.</p>
<p>3. <u>Inappropriate accounting treatment for donations</u></p> <p>IPSAS 23—<i>Revenue from non-exchange transactions (taxes and transfers)</i> sets out the accounting treatment for donations, outlining the criteria for recognizing donations as revenue or liability on initial recognition.</p>	<p>Risks/Implications</p> <p>Management and other users of the financial statements will have inaccurate information for decision-making because liabilities in the financial statements will be overstated.</p> <p>Recommendations</p>	<p>Accepted</p>	<p>The Ministry agrees with the recommendation and will ensure that donations are appropriately accounted for in line with IPSAS 23.</p>

<p>We noted several instances where the Ministry did not correctly account for donations per IPSAS 23. For example, the Ministry recognized some donations as liabilities instead of revenue. As a result, audit adjustments totaling \$19,000 were recorded in the financial statements to correct the misstatement.</p> <p>This has been a re-occurring ISA point noted during the 2022 financial year end audit.</p>	<p>Management should ensure that it appropriately accounts for donations in accordance with the requirements of IPSAS 23.</p>		
<p><u>4. Non-compliance with the Procurement Regulations and deficiencies in vendor management</u></p> <p>During our audit, we observed that the Ministry did not undertake competitive processes in procuring \$79K in janitorial expenses from two vendors contrary to the requirements of the Procurement Regulations (2022 Revision).</p>	<p>Risks/Implications</p> <p>Non-compliance with laws and regulations.</p> <p>The Ministry will not obtain value for money if it does not undertake competitive processes in procuring goods and services.</p> <p>Without formal contracts in place, there is a higher risk of disputes, misunderstandings, or disagreements regarding the terms and conditions of the</p>	<p>Accepted</p>	<p>The Ministry will ensure the services identified and other similar services are evaluated and tendered in 2024.</p>

<p>We also noted that the Ministry paid \$43K for cleaning-related services and \$37K for consulting services without supporting contracts.</p>	<p>agreement, including pricing, delivery schedules, quality standards, and liability provisions.</p> <p>Recommendations</p> <p>Management should ensure it undertakes competitive processes in procuring all goods and services.</p> <p>Management should ensure that it has supporting contracts where relevant in purchasing goods and services.</p>		
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