

**MINISTRY OF FINANCE AND ECONOMIC
DEVELOPMENT**

**Report to those charged with governance on the 2022 Financial
Statement audit**

September 2023

*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 2022 financial statements of the Ministry of Finance & Economic 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; 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 2022 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 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 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 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 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 on 25th August 2022, 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.
9. There were no corrected misstatements or adjustment arising from audit. Appendix 1 summarizes those 2022 uncorrected misstatements identified by us during the audit that were determined by management to be immaterial, both individually and in aggregate to the financial statements taken as whole.
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.

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
- Provision for Bad debts

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.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

14. We considered internal controls for the purposes of designing our further audit procedures. While as auditors we do not to express an opinion on their operating effectiveness, we are required to report to those charged with governance significant deficiencies in internal control. We identified a number of significant matters relating to internal controls as part of our audit. See Appendix 2 for details along with management's response

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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

18. No significant difficulties encountered during the course of our audit.

DISAGREEMENTS WITH MANAGEMENT

19. There were no disagreements with management that were noted during the audit.

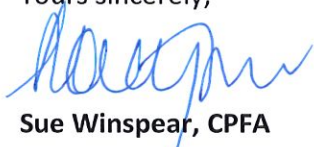
ANY OTHER SIGNIFICANT MATTERS

20. There were no other significant matters noted during audit.

ACKNOWLEDGEMENTS

21. 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 UNCORRECTED MISSTATEMENTS

Ref no	Description	Assets	Liabilities	Equity	Income	Expenses
Unrecorded - factual						
1	Being entry to correct overstatement of accrued vacation leave.	-	12,603	-	-	(12,603)
	Understated/(Overstated)	-	12,603	-	-	(12,603)

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>Bad Debt Provision not in-line with the Policy</p> <p>The Ministry has a bad debt policy, however, the Postal Office provision for bad debts as at 31 December 2022 was not in line with the policy.</p> <p>The bad debt policy stipulates that for local debtors, any amounts outstanding for longer than 180 days at yearend would be provided for. For overseas debtors, amounts outstanding for over six months from statement date or where no payment plan has been submitted would be provided for.</p> <p>As at yearend amounts outstanding for over one year amounting to \$220 thousand was not fully provided for.</p>	<p>Risks/Implication: Non-compliance with the bad debt policy. In addition, receivables may be impaired and the associated provisions for bad debts may not be recognized resulting to misstatements which could be misleading to the users of financial statements.</p> <p>Recommendation: Management should ensure compliance with the policy and conduct a regular assessment of impaired receivables according to approved policy.</p>	<p>The Bad Debt policy is a work in progress as Postal Services does not have a conventional payment/collection process, therefore it needs to be continually reassessed to ensure it makes sense.</p> <p>However, our policy states, for overseas debt any amount owing past 6 months from when the statement was accepted but not yet paid would be provided for or if accepted and there is no payment plan in place. Much of these had not yet been accepted, therefore there was no indication that they would not be paid. We must also use our discretion when provisioning.</p>	<p>Work in Progress</p>
<p>Non-Compliance with the Personnel Regulations (2022 Revision)</p> <p>We noted that four Postal Office employees had been in acting capacities for over 12 months.</p>	<p>Risk/Implication: Non-compliance with acts and regulations may expose the Ministry to reputational damage/risk.</p>	<p>All CIPS acting appointments have ended, except for Shindi Beput, who is acting Manager, Philatelic Bur. This post was advertised, applicants tested and interviews were set for 23 May, but had to be</p>	<p>June 30, 2023</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>Section 31(2) of the Personnel Regulations (2022 Revision) requires a recruitment process to be undertaken for all positions to which staff members have been employed in an acting capacity for a period exceeding 12 months.</p>	<p>Recommendation: Management should ensure that all appointed acting capacities terms and conditions complies with the Personnel Regulations (2022 Revision) and all other applicable acts and regulations.</p>	<p>rescheduled due to a panel member being absent. It is expected that this last acting appointment will end by 30 June 2023.</p>	
REITERATION FROM PRIOR YEAR			
<p>Long Outstanding Receivable Balance As at 31 December 2022, total outstanding receivables for Mail Terminal Dues amounted to \$552 thousand, which is slightly less than the prior year. During the audit, it was revealed that to date, no administration has refused to pay these outstanding receivables. All invoice up to 31 December 2021 have been sent out to administrations. However, 2022 invoices are not yet issued. These are generally not issued until July of the following year. As at February 2023, UPU Clearing House had been invoiced \$219 thousand for the prior year.</p>	<p>Risks/Implication: Long outstanding receivable increases the likelihood that the balance is uncollectible and potential disputes arises over the outstanding amount. Recommendation: Management should implement robust controls in order to ensure that the territories are invoiced in a timely manner and outstanding amounts are collected.</p>	<p>Efforts to collect these receivables continue. As of 31 Aug 2023:</p> <ul style="list-style-type: none"> • All 2017 Accounts Receivable have been collected. • 2018 has \$7k outstanding from one administration • 2019 \$2k is outstanding. • 2020 \$19K remains outstanding. However, most payments have been received and a reconciliation of accruals and exchanges rates is pending. • 2021 \$30K remains outstanding. 	<p>August 2023</p>

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
INFORMATION TECHNOLOGY MATTER			
<p>No backup and change management policy (recurring)</p> <p>Management told us that the following are still being finalized:</p> <ul style="list-style-type: none"> - Back-Up Policy - Management however has in place detailed procedures for the daily back-ups. - Change Management Policy – in addition, based on our 2020 IT assessment, the migration to Swift lacked a data migration plan. 	<p>Risks/ Implication</p> <p>The back-ups being kept (and one day could be needed) might not be in line with management’s tolerance in case it needs to recover from an event (e-g., disaster).</p> <p>Without clear change management requirements, future changes to the CIPS application could cause problems in operation and/or data accuracy.</p> <p>Recommendations</p> <p>Management should finalize its Back-Up Policy and Change Management Policy. The latter should include requirements to have data migration plan where required.</p>	<p>A back-up procedure has been put in place and 3 back-ups are regularly made and maintained at separate locations.</p> <p>A Change Management Policy is still outstanding.</p>	<p>June 2023</p>

