



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

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**Report to those charged with governance on the 31 December 2022  
audit**

**June 2023**

***To help the public service  
spend wisely***

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# REPORT TO THOSE CHARGED WITH GOVERNANCE

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## INTRODUCTION

1. We have completed our audit of the 31 December 2022 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 2022 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](http://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.

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## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter dated 25 August 2022 to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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## 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 with an emphasis of matter paragraph in the Auditor General's report on the 2022 financial statements. The emphasis of matter highlights that the Cabinet of Ministers authorised the reallocation of \$345,000 of the Ministry's 2022 appropriations to the Ministry of Financial Services & Commerce (MFSC) under section 11(5) of the Public Management and Finance Act (2020 Revision) ("PMFA"). The Cabinet of Ministers also authorised a transfer of \$100,000 in the Ministry's 2022 appropriations for equity injections to MFSC under the same section of the PMFA. A supplementary Appropriation Bill for the reallocations was not introduced in Parliament by 31 March 2023 as required by section 11(6) of the PMFA.
9. A summary of audit adjustments made to the financial statements, totaling to \$849,697, 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 2023.

## **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 doubtful debts
  - 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.

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#### OTHER MATTERS

18. No serious difficulties were encountered in the performance of our audit.
19. We have had no disagreements with management resulting from our audit.
20. There were no other significant matters noted during the 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,



**Winston Sobers, FCCA, CFE**  
Acting Auditor General

## APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Num	Acc Num	Account Name	Dr	Cr	Audit Adjustment identified by:
1	20150 58604	Accruals - Other Settlement of Cause <i>Reversal of accrual as the matter is now being handed by the counsel for insurers</i>	40,000	40,000	Audit team
2	20195 54361	Accounts Payable (Special) Computer Hardware Maintenance <i>Correction for purchase orders incorrectly received in Dec 22</i>	12,184	12,184	Client
3	12012 35001	Other Receivables Contributed Capital <i>Correction adjustment for Equity injection capital purchases</i>	72,589	72,589	Client
4	20195 54352 54885	Accounts Payable (Special) Software Licensing Fees IT Training <i>Correction of related purchase orders that were settled within 2022</i>	111,499	71,188 40,312	Client
5	22106 50150	Accrual - Annual Leave Movement in Annual Leave Provision <i>Adjustment for leave accrual</i>	18,881	18,881	Client
6	21500 44001	Other Unearned Departmental Revenue Donations Received <i>Adjustment - Usage of donations during FY22</i>	77,400	77,400	Audit team
7	21500 44001	Other Unearned Departmental Revenue Donations Received <i>Adjustment relating to reclassification of donations received in FY22 that do not have a stipulation from donor to return funds (reclass from unearned income to donation income)</i>	18,831	18,831	Audit team
8	12404 46001	Debtor Outputs sold to Exec <i>Adjustment for Inv 91401 erroneously reversed in 2022</i>	49,767	49,767	Client
9	58001 20150	Leases Accruals - Others <i>Accrual of 181 Powery road lease contract extension</i>	10,833	10,833	Client
10	17120 17021	Computer Software Construction in progress <i>Reclassification of software incorrectly transferred from the Ministry of Planning, Agriculture, Housing and Infrastructure. as WIP</i>	96,910	96,910	Audit team
11	17125 60010 32006 35001	Accumulated Depreciation - Computer Software Depreciation - Computer Software Prior period adjustment Contributed Capital <i>Adjustment accounting for the accumulated reserves and depreciation relating to the tenanted Software solution from the Ministry of Planning, Agriculture, Housing and Infrastructure</i>	13,844 6,922 9,230	29,996	Audit team
12	32007 23422	Surplus repayment Surplus payable <i>Adjustment to effect the change in surplus from adjustments posted</i>	310,807	310,807	Client

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849,697

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849,697



**APPENDIX 2 - INTERNAL CONTROL MATTERS AND SIGNIFICANT FINDINGS**

Observations	Risks/Implication & Recommendations	Management Response
<p><b>1. <u>Accounting treatment for donations</u></b></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. 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 \$96 thousand were recorded in the financial statements to correct the misstatement.</p>	<p><b>Risks/Implications</b></p> <p>Management and other users of the financial statements will have inaccurate information for decision-making because of misstatements in revenue and liabilities in the financial statements.</p> <p><b>Recommendations</b></p> <p>Management should correctly account for all donations based on IPSAS 23's requirements.</p>	<p>The Ministry agrees with the recommendation and will ensure that donations are appropriately accounted for in line with IPSAS 23.</p>
<p><b>2. <u>Outdated Purchase Orders</u></b></p> <p>During our audit, we noted four instances where the Ministry included purchase orders that it had settled in its liabilities at year-end. As a result, audit adjustments totaling \$124 thousand were recorded in the financial statements to correct the misstatement.</p>	<p><b>Risks/Implications</b></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>The Ministry agrees. Departments will be provided with further training on the basics of accounting and purchase orders.</p>

	<p><b>Recommendations</b></p> <p>Management should actively monitor all open purchase orders and should not include any it has settled in its accounts payable balance in the financial statements.</p>	
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