



**Statement by
The Hon Minister for Finance & Economic Development
in the Legislative Assembly**

on the Auditor General's Reports on: Financial and Performance Reporting Ministries, Portfolios and Offices for the years ending 30 June 2011 and 2012 and Financial and Performance reporting Statutory Authorities and Government Companies for the year ending 30 June 2012

24th October 2014

Introduction

Madam Speaker, I rise to make a Statement concerning two recent reports which were released by the Office of the Auditor General entitled "Financial and Performance Reporting: Ministries, Portfolios and Offices for the years ending 30 June 2011 and 2012" and "Financial and Performance Reporting: Statutory Authorities and Government Companies for the year ending 30 June 2012".

Madam Speaker, the reports summarize the results of the Auditor General's examination of the financial statements of Ministries, Portfolios and Offices of Central Government for the fiscal years ending 30th June 2011 and 2012, and with respect to Statutory Authorities and Government Companies for the fiscal year ending 30th June 2012.

Madam Speaker, I will not go into significant detail on the findings of the two reports except to say that the combined expenses for the Ministry of District Administration, Works, Lands and Agriculture and the Ministry of Finance, Tourism and Development for the two fiscal years ending 30 June 2011 and 2012 are \$269.7 million.

I want to inform the public of the Government's achievements in improving its financial reporting and accountability.

Improvements are being made

Madam Speaker, based on the two Auditor General's Reports, out of the 14 agencies that were audited in 2010/11, 85% received qualified and unqualified opinions.

All but one (1) of these 12 agencies have now Tabled their financial statements in the Legislative Assembly thereby making the reports open to the public for scrutiny.

This is indicated on page 28 of the Report on Central Government's Ministries, Portfolios and Offices.

Out of the 40 agencies that were audited in 2011/12, 92% received qualified and unqualified opinions.

Twenty-six of the 40 agencies have now Tabled their financial statements in the Legislative Assembly thereby making the reports open to the public for scrutiny.

This is indicated at page 28 of the Report on Central Government's Ministries, Portfolios and Offices and at page 31 of the Report with respect to Statutory Authorities and Government Companies.

The robustness of the consolidated financial statements for the Entire Public Sector, is dependent upon the quality of information contained in the financial statements of individual Ministries, Portfolios, Offices, Statutory Authorities and Government Owned Companies.

If an individual Ministry, Portfolio, Office, Statutory Authority and Government Owned Company is a significant agency within the Entire Public Sector and that agency receives a Disclaimer of Opinion or an Adverse Opinion from Auditor General, then the consolidated financial statements of the Entire Public Sector will receive a Disclaimer of Opinion or Adverse Opinion from the Auditor General.

Therefore it is important that each agency within the Entire Public Sector improves the quality of information in its financial statements, so that the consolidated financial statements of the Entire Public Sector will not receive a Disclaimer of Opinion or an Adverse Opinion from the Auditor General's Office, in the future.

Challenging Times Still Ahead but a Solution is Being Developed

Madam Speaker, I am not going to stand here today and say that the Government's finances are perfect. The Government acknowledges that it still has significant work to do in order to restore timely financial accountability. It is a position that the current Government inherited but nonetheless we are trying to improve public accountability.

On 20th August 2014, the Ministry of Finance met with the Auditor General to discuss the outstanding audit issues that were continuing to cause the audit qualifications at both the entity and the consolidated financial statements for the Entire Public Sector.

Given that the Auditor General's Reports on the Financial and Performance Reporting for the years ending 30 June 2011 and 2012 are based on periods that are two to three years ago, some of these audit findings have already been addressed and improvements have been made.

The following audit issues are those that are currently hindering the Government from moving from a disclaimer of opinion on its consolidated financial statements for the Entire Public Sector to an improved qualified opinion and eventually, an unqualified opinion:

1. Lack of Management Representations

Madam Speaker, the Auditor General is not satisfied and does not have the assurance from Chief Officers and Chief Financial Officers within each Ministry, Portfolio and Office that revenues, receivables, expenses, liabilities and other balances recorded within the financial statements are complete, accurate and fairly presented. Therefore the Auditor General has been unable to obtain sufficient appropriate audit evidence to determine the reasonableness of the reported balances.

To address the issue of qualification following the August 20th meeting between the Auditor General and the Ministry of Finance, the Ministry of Finance is developing a standardized submission package or assurance framework which will enable Chief Officers and Chief Financial Officers to assert that the balances that they are reporting are fairly presented and that appropriate documentation to support the timely audit of financial statements will be provided to the Auditor General.

2. Lack of Internal Controls

The lack of segregation of duties and the lack of monitoring and review by management are some of the key internal controls that still need improvement across Government.

Madam Speaker, Government entities are now focussing on improving their systems of internal controls to ensure the effectiveness and efficiency of operations, the safeguard of assets, the reliability of information in financial reports and the compliance of activities with laws and regulations.

The Government is currently developing an improved internal control framework that will be applied across the public sector.

3. Post-Retirement Healthcare Liability

The Government is obligated to provide post-retirement healthcare benefits to current pensioners, seamen and veterans, and future retirees.

An independent valuation of the post-retirement healthcare costs obligation for the periods covered by the Report on Central Government was not carried out, and as a result the Auditor General has been unable to determine the extent of the obligation of the Government.

Madam Speaker, the Government has recently received and is currently giving consideration to the valuation of the post-retirement healthcare liability.

The post-retirement healthcare liability is derived by computing the value of healthcare cost which will be received by current pensioners, seamen, veterans, and future retirees over the period of their life expectancy, but discounted back to the date of the valuation report. Hence this is a series of amounts that will be paid yearly during their life expectancy. However that total amount is discounted and represented at today's value.

It is very important that the public understands that the post-retirement healthcare liability figure is not an amount that the Government is obligated to pay immediately or within a short period of time. In fact, as part of its annual budget, Government budgets for, and pays, on-going post-retirement healthcare costs.

To illustrate this point, if a family has a significant amount of money in their savings account and they also have a mortgage of several hundred thousand dollars, the mortgage is a liability of the family but it is not a liability that needs to be repaid immediately or within a short timeframe. Similarly, the Government is not expected to pay for the entire amount of the post-retirement healthcare liability in the immediate future.

In addition, Madam Speaker the Cayman Islands Government is currently preparing legislation that will increase the retirement age from 60 up to 65 years; and by doing so will significantly reduce the post-retirement healthcare liability amount since the difference in years between retirement and life expectancy will be decreased.

4. Valuation of Property, Plant and Equipment

The Government carried out a revaluation of its lands, buildings, infrastructure and leasehold improvements in July 2013. However, the Auditor General has reported that the valuation report needs to be further broken down to show the “compartmentalized” assets. As such the Auditor General is still not able to evaluate the reasonableness of the carrying amount of land and buildings, and any associated depreciation or impairment entries recorded within the financial statements.

Madam Speaker, the Government will ensure that future valuations are prepared in the required format.

It should also be noted Madam Speaker, that there have been important personnel changes in the two Ministries that are the primary focus of the Report. In 2012, new Chief Officers were appointed to the Ministries in question along with new Chief Financial Officers in 2013 and 2014. The Government expects that the quality of those two Ministries’ financial statements will improve.

The Government intends to bring to the Legislative Assembly, before the end of this fiscal year, a Bill to amend the Public Management & Finance Law to address some of these concerns.

Madam Speaker, with the implementation of the above measures, it was agreed with the Auditor General that the Government could expect to receive a qualified opinion on its 2013/14 consolidated financial statements for the Entire Public Sector.

The Auditor General has committed to issuing the opinion thereon by 30th June 2015.

Conclusion

Madam Speaker, the Government has, since the time-period covered by these two Audit Office Reports, improved the timeliness and quality of its financial reporting and accountability.

The Government is committed to improving the financial management systems which will result in the production of financial reports that increasingly receive unqualified audit opinions.

Madam Speaker, the Auditor General Reports can be found on the websites of the Office of the Auditor General and I encourage the public to take the time to read them and educate themselves on the issues at hand.

Thank you Madam Speaker.