

Financial and Performance Reporting

Ministries, Portfolios and
Offices for the years
ending 30 June 2013 and 2014





To help the public
service spend wisely

TABLE OF CONTENTS

Executive summary	1
Introduction	3
Results of the 2012-13 and 2013-14 audits	4
Introduction	4
Quality of financial reporting	5
Timeliness of the financial reporting	7
Transparency and accountability	9
Financial performance	12
Introduction	12
Challenges in analysing M&P financial performance.....	12
Discussion of financial results	14
Summary	19
Governance and internal control issues	21
Conclusion	29
Appendix A – Status of the 2013-14 audits	31
Appendix B – Status of the 2012-13 audits	32
Appendix C - Audit opinion definitions	33
Appendix D – Supporting financial analysis	34
Appendix E – Individual entity reporting	36

EXECUTIVE SUMMARY

I am pleased to present this report to the Legislative Assembly that summarises my Office's financial audits of the ministries, portfolios and offices in core government (M&Ps) for the years ending 30 June 2013 and 30 June 2014. I believe that Members of the Legislative Assembly will find this report useful in their role to ensure financial accountability and transparency for Government operations.

Along with government's summary financial statements, the annual reports and financial statements of the individual entities of government are the key documents that enable the Legislative Assembly and the residents of the Cayman Islands to hold ministries, portfolios, and offices accountable for their use of public resources.

Looking back to December 2010, when I delivered my first General Report on Financial and Performance Reporting, the situation was appalling. At that time:

- 85 (or nearly 40%) out of 220 sets of entity financial statements were outstanding;
- only 40 (18%) out of 135 audited financial statements had actually been tabled in the Legislative Assembly and publicly available to citizens to see what revenues had been generated and how money had been spent; and
- only 7 of the 37 opinions issued on ministry and portfolio financial statements had been unqualified, and 18 or just under half had either been disclaimed or received an adverse opinion meaning the information contained in them could not be relied on.

Therefore, six years after the introduction of the PMFL there was no accountability for the generation and use of public resources. Just as concerning there did not seem to be a plan in place to rectify the situation.

I am pleased to report that nearly five years later the situation has improved significantly. Whilst there are still some significant challenges to be overcome, after a significant push in the second half of 2014 and first six months of 2015, we have nearly reached a position where the backlog of prior year financial statements has been cleared. No M&P financial statements for 2013-14 are likely to receive an adverse opinion or a disclaimer of opinion, and at least six of the fifteen M&Ps will receive an unqualified opinion. Financial year 2013-14 is also the first year that the Ministry of District Administration, Tourism and Transport and the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure or their predecessors will not receive an adverse opinion or a disclaimer of opinion. Therefore the financial year 2013-14 in particular has seen some significant progress, and in relative terms the Government has come a long way from the dire situation that existed in 2010.

However, whilst the story is one of progress, there is still some way to go to achieving accountability as expected by accounting standards and as envisioned in the *Public Management and Finance Law* (PMFL). The Government is now much better placed to achieve this for the M&Ps, but it will still require a lot more work if it is to be achieved, in particular if the statutory timescales of the PMFL are going to be met.

In this report, I discuss some of the issues regarding the timely completion and publication of credible financial and performance information that will need to be addressed to achieve accountability as envisioned in the PMFL. In particular I raise ongoing concerns about:

- impediments to timely completion of the audit and issuance of financial statements;
- delays in tabling of annual reports/annual financial statements in the Legislative Assembly;
- M&Ps tabling financial statements rather than an annual report; and
- weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse.

I have also reported my continuing concerns about deficiencies in the current financial reporting framework, as required under the PMFL, which in my view effectively obscures accountability and transparency in the use of public resources, and for the expenditures authorised by the Legislative Assembly.

For progress to continue towards the ultimate objective of restoring financial accountability, the Government should set clear goals for achieving accountability required by the PMFL, in both the short and medium term, and provide regular reports to the Legislative Assembly on the progress that has been made on achieving those goals.

My Office looks forward to continuing its work with Government and the individual entities as they continue on the path of improving financial reporting and restoring accountability for the use of public funds.

INTRODUCTION

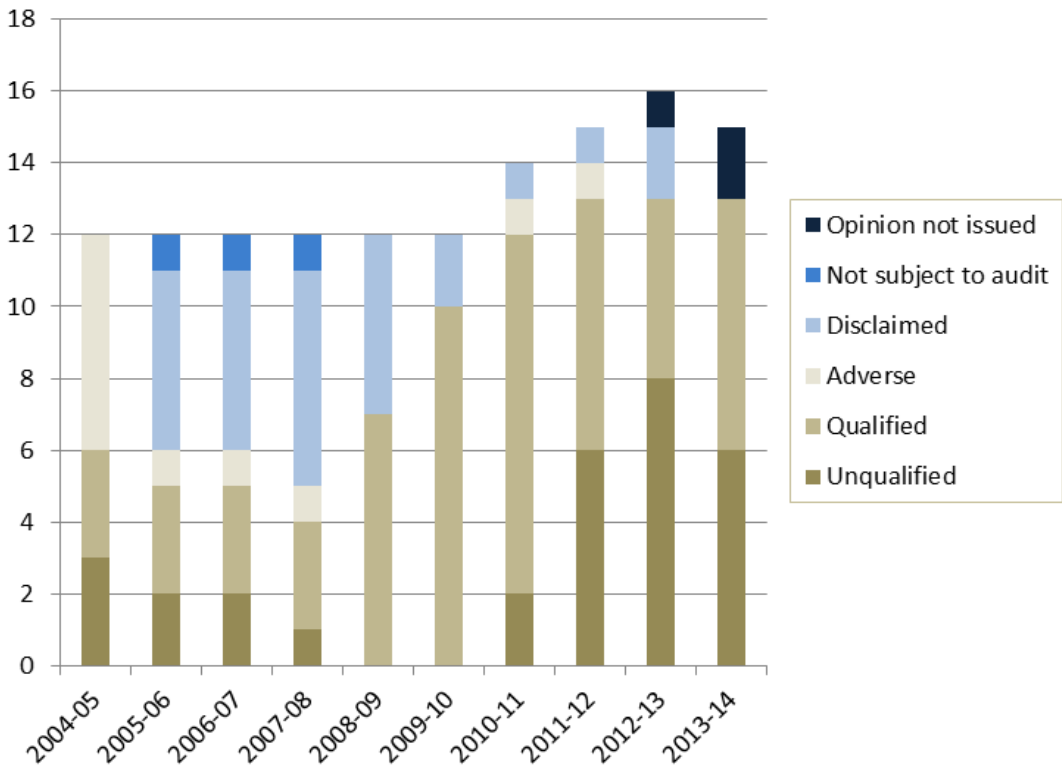
1. Timely, accurate and reliable financial information is a fundamental component in ensuring the effective governance and accountability of Government and public entities. Without this information, decision making is compromised as Legislators and officials cannot make effective and robust decisions regarding the allocation of resources and effective management of the resources at their disposal. Furthermore, the Government cannot be held accountable for how they have used public money.
2. I have issued a number of reports over the last few years discussing the concerns I had about financial and performance reporting across the public sector and reporting on the progress that had been made in clearing the backlog of financial statements and restoring financial accountability.
3. This report provides an update on the audits of ministries, portfolios and offices (“M&Ps”) for the years ending 30 June 2013 and 30 June 2014 and includes:
 - the status and results of M&Ps audits for 2012-13 and 2013-14;
 - highlights of the financial performance reported by M&Ps for 2013-14;
 - concerns I have raised in my audit reports on individual M&P financial statements; and
 - a summary of significant governance, internal control and financial management concerns that I have reported separately to entity management over this period.
4. A small number of audits for the years ending 30 June 2013 and 30 June 2014 have still to be completed. In these instances I have included some financial information from their draft financial statements in this report for completeness but very little or no additional commentary on the outcomes of the audits. Further information on the results of these audits and the financial performance for these entities will be provided in future reports once they are all completed.

RESULTS OF THE 2012-13 AND 2013-14 AUDITS

INTRODUCTION

- The audit reports for 2012-13 and 2013-14 have shown continued improvement in the quality and timeliness of the annual financial reporting for M&Ps. As at the date of this report, the audits of the financial statements for all but two of the M&Ps have been completed. The Ministry of Education, Employment and Gender Affairs for both years, and the Ministry of Health, Sports, Youth and Culture for 2013-14 remain outstanding.
- For the year ended 30 June 2013, I have issued eight unqualified opinions, five qualified opinions, and two audits were disclaimed. For the year ended 30 June 2014, of the thirteen audits completed, six received unqualified opinions and seven qualified opinions. Exhibit 1 below demonstrates the general trend of improvement in the opinions that my Office has issued since the introduction of the PMFL in 2004-05.

Exhibit 1: Ministries and Portfolios audit opinions



7. Further information on the audits is provided in Appendices A and B. They include information about the audit opinions issued, the date they were signed and the date they were tabled in the Legislative Assembly. Appendix C provides information about the audit opinions I can provide according to *International Standards for Auditing*.

QUALITY OF FINANCIAL REPORTING

8. The purpose of annual financial reporting is to provide accountability to the Legislative Assembly and residents of the Cayman Islands about the use of public resources. It is expected that all M&Ps should prepare timely annual financial statements and that they receive an unqualified audit opinion providing assurance that the information is credible and reliable.
9. A disclaimer of opinion or adverse opinion should be considered as a fundamental failure by the entity's management which undermines public accountability, transparency and trust. Apart from clearly demonstrating that an entity cannot effectively account for how it used resources, these opinions can also indicate failures of governance and internal control.
10. In the years leading up to 2009-10, a significant number of disclaimers were issued primarily in the larger ministries. For example, in 2007-08 only one M&P received an unqualified opinion, three were qualified, whilst one received an adverse opinion, six were disclaimed and one was not subject to audit. There were very few unqualified audit opinions, with no financial statements receiving unqualified audit opinions in 2008-09 and 2009-10.
11. The trend shows that the M&Ps have made some significant strides over the last few years. Financial year 2013-14 will likely be the first time that no M&P receives an adverse opinion or disclaimer of opinion. There has been an increase in the number of unqualified audit opinions over the last couple of years and the number of matters on which financial statements have been qualified has decreased. As a result the audited financial statements now have a higher degree of reliability and credibility. The improvements include improved accounting practices, better supporting information and better presentation of information for readers.
12. Exhibits 2 and 3 provide an analysis of the different qualifications across the entities that have received qualified audit reports on their 2013-14 and 2012-13 financial statements respectively.

Exhibit 2: Reasons for Ministry and Portfolio Qualifications – 2013-14*

	Inventories	Property, Plant and Equipment	Accounts Payable	Net Worth	Employee Entitlements	Depreciation	Surplus Payable	Supplies and Consumables	Cash Flow	Warehouse
Cabinet Office										
Judicial Administration										
Ministry of District Admin, Tourism & Transport (DATT)										
Ministry of Home Affairs										
Ministry of Finance and Economic Development										
Ministry of Planning, Agriculture, Housing & Infrastructure (PLAHI)										
Portfolio of the Legal Affairs										

*Excludes any potential qualification that maybe reported for the Ministry of Education, Employment and Gender Affairs, the Ministry of Health, Sports, Youth and Culture.

Exhibit 3: Reasons for Ministry and Portfolio Qualifications – 2012-13[#]

	Accounts Receivable	Property, Plant and Equipment	Accounts Payable	Other Payables and Accruals	Net Worth	Employee Entitlements	Revenues	Depreciation	Warehouse
Cabinet Office									
Judicial Administration									
Ministry of District Admin, Works, Lands and Agriculture ¹									
MFTD – Public Finance									
MFTD – Tourism and Development	Disclaimed								
Portfolio of Internal and External Affairs									
Portfolio of Legal Affairs									
Portfolio of the Legal Affairs									

[#]Excludes any potential qualification that maybe reported for the Ministry of Education, Training and Employment, and nothing is included for the disclaimer issued on the Ministry of Tourism.

¹ Audit report disclaimed

13. The most significant matter to note from Exhibits 2 and 3 is the qualified opinions in 2013-14 on the Ministries of DATT and PLAHI. In 2012-13, both their predecessor Ministries received disclaimers of opinion, and since the introduction of the PMFL in 2004 had either been disclaimed or at best received an adverse opinion. This has meant that no credible or reliable financial information has been available publicly for nearly 10 years for these entities. Issuing a qualified opinion on both Ministries for 2013-14 is a significant step forward. Whilst recognizing this achievement a sense of perspective is still required. Ultimately anything other than an unqualified opinion should not be acceptable to management and these two ministries along with the other M&Ps that continue to receive qualifications should be striving to deliver financial statements that receive unqualified opinions, in a timely manner. However the progress that has been made is a major step toward financial accountability. The financial statements were qualified primarily due to the lack of appropriate supporting information.
14. Compared with my general report on M&Ps issued in October 2014 for the financial years 2010-11 and 2011-12, the number of qualification issues and the prevalence of certain issues have significantly decreased. In 2012-13 and 2013-14 the only prevalent qualification matter related to Property, Plant and Equipment (PPE). In prior years, the main PPE qualification issue related to their valuation. Currently, the PPE qualification issues relate to concerns I found with the supporting documentation and the poor maintenance of assets registers. As a result, four M&Ps had their PPE qualified, which also resulted in the depreciation expense and accumulated surpluses being qualified.
15. Audit reports for four entities also include a number of “*matters of emphasis*” or “*other matters*”, that highlight matters for the attention of the reader, but for which the opinion was not further qualified. Specific details of each individual entity’s “*matters of emphasis*”/“*other matters*” are provided in Appendix E along with the detailed information on the qualifications reported for each entity in 2012-13 and 2013-14.

TIMELINESS OF THE FINANCIAL REPORTING

16. Financial reporting by public sector entities provides information about the entity required for accountability and decision-making purposes.
17. Accounting and financial reporting standards identify a number of qualitative characteristics of the information contained in financial statements of public sector entities; relevance; faithful representation; understandability; timeliness; comparability; and, verifiability. In this context timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes.

18. The usefulness of financial statements is impaired if the information is not made available to users within a reasonable time period. International Public Sector Accounting Standards (IPSAS) clearly states that an entity should issue its financial statements within six months of the reporting date. Under the PMFL the statutory deadline for entities to be in a position to issue financial statements is 31 October or four months after the year end.
19. For the 2012-13 financial year I received financial statement submissions for all entities by the 31 August statutory deadline and the audits were completed for seven entities by the statutory deadlines of 31 October 2013, compared to six for 2011-12 and two for 2010-11. For 2013-14, all entities again submitted by the deadline and eight audits were completed in a timely fashion.
20. Subsequent to the passing of the statutory deadline it was agreed with the Deputy Governor that the pressure would be maintained on entities and their senior management, to ensure that there was a further concerted effort in the first half of 2015 to ensure that all outstanding financial statements would be completed by 30 June 2015. Our experience in past years had clearly shown that the effort and momentum within entities to get the outstanding entity financial statements completed fell away after the statutory deadline passed, ultimately leading to the continuing backlog as my Office faced significant challenges in progressing audits as M&Ps other priorities took precedence.
21. As at 30 June 2015 five audits for four entities were still outstanding. As at the date of this report only three audits are still outstanding, as highlighted in paragraph 5. We have therefore managed to materially address the continuing backlog of financial statements for M&P's.
22. As a result of recent progress, my Office and M&Ps can now focus their attention on the current reporting period and moving closer to compliance with the statutory timelines set out in the PMFL. This will continue to remain challenging in the short term, but if the momentum continues the likelihood of this being achieved in the next couple of years will be greatly increased as more space and time is available for entities to prepare current financial information that is auditable earlier in the financial year, and my Office will thus be able to undertake significant audit work prior to the financial statement submission on 31 August.
23. However it should be noted that working with entities to improve the timeliness of financial reporting over the last two years has still been challenging as there continued to be impediments to making progress. Despite all M&Ps making submissions to my Office in line with statutory timescales, as we conducted our audits it became clear in a few instances that the submissions were provided to meet the statutory timetable and did not always provide a reasonable draft set of financial statements for auditing. For example a quick review of five ministries revealed that they had to pass 60 material adjustments to the draft financial statements presented for audit with a gross value of over \$120m, which highlights issues with submission quality.

24. Another issue are the delays by entities in resolving audit issues and adjustments during the audits. For example:
- Ministry of Education - 2013 and 2014: The completion of the audit has been delayed due to the Ministry challenging the professional valuation of PPE in the summer of 2015, a significant period of time after the valuation was completed. The impact of the valuation is very material to the financial statements.
 - Ministry of Health - 2013: At the statutory deadline of 31 October 2013, we were in a position to issue a qualified opinion on four matters. We agreed to give the Ministry time to resolve the matters. The financial statements were signed and issued on 9 June 2015 with an unqualified opinion, some 17 months later.
 - Cabinet Office - 2014: At the statutory deadline of 31 October 2014, we were in a position to issue a qualified opinion. At the request of the Cabinet Office more time was provided to resolve the qualification issues. However by the time the financial statements were signed on 1 May 2015, 6 months later, the financial statements were still qualified on the same issues.
25. Overall the audit results for 2013-14 show continued progress, and we are now in a significantly better position than in the previous ten years. M&Ps should be looking to get unqualified financial statements, but not at the expense of timeliness. The value of financial reporting is significantly diminished in terms of accountability and transparency, let alone decision making if entities continue to delay reports. Ultimately, a balance is required. Entities should have a plan for how they will achieve better quality statements while achieving statutory deadlines.
26. Entities will continue to need to work with my Office to improve the timeliness of their financial reporting so that the timescales set out in the PMFL can be achieved. This will require all entities to submit draft financial statements for audit that are of higher quality and that faithfully represent the transactions of the entity. As well, some entities need to improve their responsiveness to questions and issues raised by my team. If qualification matters are being raised during an audit, entities should be prepared to address those matters in a more timely fashion to respect the statutory reporting deadlines.

TRANSPARENCY AND ACCOUNTABILITY

27. The tabling of the annual reports containing the financial statements in the Legislative Assembly is the final step in the accountability chain. Among other objectives, the annual reports provide explanations of the financial results. Without annual reports, it is almost impossible for stakeholders, Legislators and citizens, to understand how public resources have been used and to hold Government and public bodies accountable.

28. Many entities choose to table only the financial statements, leaving Legislators and other stakeholders unable to fully hold the entities accountable for their use of public resources. This lack of information, required by the PMFL, undermines the work that is put into the preparation of financial reports and my audit of them. It is challenging for stakeholders to interpret the results included in the financial statements as there is no discussion and analysis to contextualize the financial information.
29. As at the date of this report, the annual reports and/or financial statements for nine entities have been tabled for the year ending 30 June 2013 and nine for the year ending 30 June 2014. Four M&P reports for prior years have yet to be tabled.
30. The Government has recently made a concerted effort to table reports in a more timely fashion.. Three reports for the year ending 30 June 2014 were tabled in line with the timelines specified in the PMFL, the first time that this has been achieved for any M&P since the introduction of the PMFL. There still remains considerable room for improvement though.
31. However, whilst we are seeing the timescales shortening between the sign-off of the financial statements and their tabling in the Legislative Assembly, in most cases entities are presenting just their financial statements and are not preparing a full annual report as required by the PMFL. As a result it is challenging for stakeholders to interpret the results included in the financial statements, as there is no discussion and analysis to contextualize the financial information.
32. After annual reports or financial statements are tabled in the Legislative Assembly it can also be challenging for stakeholders to find the documents. Whilst they should be available on the website of the Legislative Assembly (<http://www.legislativeassembly.ky/>) each entity should also be making their annual reports or financial statements accessible to all stakeholders on their own websites and through other appropriate mechanisms, to further promote transparency and accountability.
33. Looking forward, as more financial statements are signed off within the statutory timeframes, the Government should build on its recent efforts and ensure these are tabled in the Legislative Assembly in accordance with the timescales required by the PMFL. Furthermore, the Government should also be pressing entities to present full Annual Reports required by the PMFL, including a comprehensive discussion and analysis of their financial and operating performance.

34. The International Public Sector Accounting Standards Board (IPSASB) issued Recommended Practice Guidelines (RPGs) in 2013 on *“Financial Statement Discussion and Analysis”* and another on *“Reporting Service Performance Information”* in March 2015. Whilst entities are not currently required to implement these when applying the International Public Sector Accounting Standards (IPSAS) it is highly recommended, and in due course it may become part of the IPSAS and therefore become a requirement. The implementation of these RPGs would enhance transparency and accountability of entity financial performance and meet the Annual Report requirements of the PMFL.
35. Finally entities should also ensure that they are made easily accessible to all stakeholders. Until this is achieved, the Legislative Assembly will continue to find it challenging to hold M&Ps accountable for how they collect and spend public monies.

FINANCIAL PERFORMANCE

INTRODUCTION

36. In the previous section, I highlight that most entities are not preparing an annual report and, therefore, are not in compliance with the PMFL. They are simply preparing financial statements and submitting them to the Legislative Assembly. One of the objectives of an annual report is to provide explanations for the financial results that provide stakeholders, Legislators and citizens an understanding of how public resources have been used and to hold Government accountable.

37. As these entities have not met this statutory requirement, I decided to provide commentary and analysis on the financial performance of certain M&Ps. As stated in the previous sections, the main avenue for detailed discussion and analysis of individual entity results should be through the annual reports of entities. Therefore, it is not our intention to replace these or fill the vacuum where annual reports have not been prepared. My objective for this commentary and analysis is to provide some transparency and accountability that is currently missing.

CHALLENGES IN ANALYSING M&P FINANCIAL PERFORMANCE

38. As I highlighted in my previous general report on M&Ps relating to the 2010-11 and 2011-12 financial years, which was published October 2014, interpreting and understanding the financial performance being reported for individual M&Ps is challenging under the current framework. Apart from the current lack of a “*Financial Statement Discussion and Analysis*” within the annual reports for entities, there are two issues that prevent readers from being able to effectively analyse the financial reports of M&P:

- the artificial separation between executive and entity transactions with only entity transactions reported in the M&P financial statements; and
- weak or non-existent reporting against the legal authority for the using public money, established through the annual appropriations law by M&Ps.

EXECUTIVE AND ENTITY TRANSACTIONS CREATE CONFUSION FOR THE READER

39. The readers of M&P financial statements are not provided with financial information about significant areas of activity undertaken by Government that is only reported in the Entire Public Sector (EPS) financial statements. For example in 2013-14, transfer payments made by the Government to individual entities or organisations of approximately \$31 million, the purchase of outputs of nearly \$26 million from non-governmental organisations and other executive expenses of nearly \$18 million are only accounted for through the Entire Public Sector financial statements even though they are effectively administered by the individual M&Ps. Equally the output funding and equity investments of respectively \$102 million and \$26 million provided to Statutory Authorities and Government Companies, though administered through the M&Ps are also not included in their financial reports. This is due to the artificial separation of transactions into entity and executive, with only transactions that are classified as “entity” being recorded in the M&P financial statements.
40. For example the Ministry of Health, Sports, Youth and Culture (MHSYC) has reported expenditure of around \$20 million in its financial statements. However it has administered over \$50 million of other executive expenses such as tertiary care at overseas institutions, and the purchase of outputs from the HSA and other SAGCs which are not accounted for in its financial statements. Similarly the Ministry of Community Affairs reports expenses of around \$13 million annually, but this excludes all the executive expenses for social welfare that it administers of around \$8 million.
41. This demonstrates that significant elements of some ministries activities are not reported through the ministry financial statements that I discuss in this report, and furthermore there is no appropriate analysis in the EPS Consolidated Financial Statements that provides this information. Therefore it is challenging for a reader of government financial statements to determine the amount spent by government on its various portfolios.

SPENDING AGAINST LEGAL AUTHORITY (APPROPRIATIONS)

42. The Legislative Assembly provides legal authority for the Government to undertake activities and spend public resources by passing appropriation laws after the budget of the Government has been agreed to. Without the passage of these laws, the Government has no authority to incur expenditure and therefore carry out its activities.
43. Legislative authority is a fundamental control in the accountability framework for the use of public money which is designed to hold the Government accountable for:
- the level of public resources it plans to spend in delivering its programs and services; and
 - what it actually spent compared to what was legally authorized through the appropriation laws.

44. For M&Ps the funds that they are provided by Cabinet for the delivery of outputs (referred to as “Outputs to Cabinet”) are subject to Legislative control through the appropriation laws each year. Because of the framework in place, it is possible for M&Ps to incur expenditures greater than the revenues it requests from Cabinet, and thus report a deficit, while remaining within its appropriation law limits. This loophole in the law precludes accountability for the use of public funds.
45. We have found many instances where reporting by government provides little or no assurance that the expenditure limits contained in the appropriation laws passed by the Legislative Assembly have been respected.

CONCLUSION

46. Our audits identified a number of issues that obfuscate the financial performance and accountability of individual ministries and Government as a whole. These include:
- no discussion and analysis of financial results provided to the Legislative Assembly;
 - financial statements do not report the financial impact of all the activities they administer;
 - the reader needs to understand the complexities of the organisational and accounting framework employed by Government to be able to interpret the information; and
 - M&Ps do not report effectively against the authorized public spending limits, preventing full accountability to the Legislative Assembly.
47. It is only through the EPS consolidated financial statements and associated Statement of Appropriations that any form of accountability and transparency can be provided.

DISCUSSION OF FINANCIAL RESULTS

48. As a result of the issues highlighted above, I have concentrated on examining the expenditure incurred by M&Ps in delivering public services during the more recent reporting period 2013-14. I also provide high level information on the reported deficits and the performance against the appropriation limits, but as highlighted in the previous section this information is limited in its value as my analysis excludes the executive transactions administered by M&Ps.

EXPENSES, REVENUES AND SURPLUS/DEFICIT

49. Exhibit 4 provides the entity expenses incurred, revenues generated and the surplus/deficit reported for the year ending 30 June 2014. Also provided are details of the 2013-14 budgeted expenses; the variance between the budgeted and actual expenses; prior year expenses; and the surplus/deficit reported in the prior year.

Exhibit 4: M&Ps 2013-14 Expenses, Revenues and Surplus/Deficit

Entity	Expenses				Revenue	Surplus/Deficit	
	2012-13 (\$'000)	2013-14 (\$'000)	Budget	Variance against Budget	2013-14 (\$'000)	2013-14 (\$'000)	Prior Year (\$'000)
Cabinet Office	10,249	5,669	5,726	57	5,933	264	208
Director of Public Prosecution	2,560	2,660	2,741	81	2,742	82	181
Information Commissioners Office	619	795	815*	20*	815	20*	(37)
Judicial Administration	5,144	5,495	5,369	(126)	5,385	(110)	(116)
Ministry of Community Affairs	12,989	12,887	13,776	889	13,847	960	885
Ministry of District Administration, Tourism and Transport	35,170	29,566	30,313	747	27,815	(1,751)	(521)
Ministry of Education, Employment and Gender Affairs #	71,604	72,509	75,363	2,853	74,763	2,254	3,119
Ministry of Finance and Economic Development	17,761	17,958	18,486	528	20,536	2,578	(1,060)
Ministry of Financial Services, Commerce and Environment	8,191	9,166	10,492	1,326	9,704	538	23,356
Ministry of Health, Sports, Youth and Culture #	11,320	20,041	21,435	1,394	21,636	1,595	(2,016)
Ministry of Home Affairs	74,401	87,701	88,630	929	90,471	2,770	2,608
Ministry of PLAHI	65,487	43,949	43,996	47	42,411	(1,538)	1,408
Office of the Complaints Commissioner	615	646	740	94	740	94	80
Portfolio of the Civil Service	1,796	7,041	7,989	948	7,548	507	411
Portfolio of Legal Affairs	5,998	6,543	6,644	101	6,665	122	25

* Budget increased to \$815k but the no supplementary appropriation has been passed, therefore legally the budget hasn't changed from the original budget of \$771k

Draft figures from the unaudited financial statements

50. In Exhibits 4 and 5 figures for Ministry Education, Employment and Gender Affairs, and the Ministry of Health, Sports, Youth and Culture have been included from the draft financial statements for completeness.
51. Looking at the expenses, a number of entities appear to be underspending against their budgets. A reason for these underspends was personnel costs as M&Ps managed their vacancies and delayed recruitment, despite the payment of an unbudgeted honorarium of 2.5% to all staff at the end of the financial year.

52. The prior year figures are not directly comparable in most instances with the current period due to the reorganization of Government that occurred after the election in May 2013, but are provided for information. For example:

- Computer Services Department and the Fire Departments were transferred to the Ministry of Home Affairs from the Cabinet Office and the Ministry of Financial Services respectively;
- the Portfolio of the Civil Service took over responsibility for the Legislative Assembly, the Governor's and the Deputy Governor's Offices, the Commissions Secretariat and the Elections Office from the Ministry of Home Affairs; and
- the Ministry of PLAHI transferred responsibility for District Administration to DATT and took on responsibility for Housing from the Ministry of Community Affairs.

53. Looking across the M&Ps there are a number of areas of expenditure of interest in 2012-13 and 2013-14:

Information Commissioners Office: In both 2012-13 and 2013-14 the litigation costs incurred were significantly greater than budgeted due to the Office dealing with judicial reviews and legal challenges to its decisions. In 2013-14 litigation expenses were \$44k greater than the budgeted \$75k. Although Cabinet authorized additional revenue (appropriations) under section 11(3) of the PMFL to meet these costs, there has not been any subsequent supplementary appropriation to regularize this expenditure. For 2012-13 the Office had no budget for litigation costs and incurred costs of \$55k. It met \$6k of the costs from internal savings and \$49k was paid by the Ministry of Finance from the Nation Building Fund. This transaction effectively usurped the authority of the Legislative Assembly for approving the resources to be used by entities, undermining a fundamental pillar of parliamentary accountability and transparency.

Judicial Administration: Judicial Administration was the only entity to report expenses greater than budget in 2013-14. The main reason for this was personnel costs which were overspent by \$111k. A total of \$63k related to the 2.5% honorarium paid to all staff, with the rest arising mainly from the increased levels of accrued vacation and compensatory time. These costs were also the main reason for it also reporting a deficit in 2013-14.

Ministry of District Administration, Tourism and Transport: Total expenditure for the Ministry was within the overall budget set. However for four areas of expenditure, the amounts were greater than budgeted and breached the specific limits authorized in the appropriation laws. Expenditure also exceeded the revenue generated or billed to Cabinet, leading to the reporting of a significant deficit, despite the Ministry having sufficient authorized appropriations to bill Cabinet further.

Ministry of Education: The draft financial statements for both 2012-13 and 2013-14 are reporting surpluses. However 2012-13 financial statements will be required to account for a significant write down in the valuation of Clifton Hunter High School (CHHS) of between \$25 to \$40 million. As the result the financial statements for 2012-13 will report a significant deficit when they are finalized.

Ministry of Financial Services, Commerce and Environment: Whilst the Ministry results for 2013-14 show a surplus of \$538k in line with expectations, this is a significant change compared to the prior year when it generated a surplus of \$23 million. This is due to fees mainly relating to company and partnership registrations being reclassified from entity to executive transactions, and therefore no longer being reported as the Ministry's income.

Ministry of Home Affairs: In 2013-14 the Ministry included the costs of settling several significant lawsuits. In the 2012-13 the ministry wrote off to expenses the following capitalized costs:

- software valued at \$511k for immigrations biometric project which had cost \$663k. Whilst part of the system has been used by Immigration to fingerprint individuals arrested for immigration offences, significant elements of the asset had not been used since its procurement due to a lack of enabling legislation, and there were no current plans to actually bring the software in to use; and
- \$678k for the foundations of the proposed youth facility as a result of the project being cancelled and no alternative use identified. This project was originally under the Ministry of Community Affairs.

The Ministry was provided with \$45k by the Ministry of Finance in 2012-13 to top up funding for the CCTV programme. The Ministry of Finance provided this from the Nation Building Fund effectively avoiding Legislative scrutiny of a supplementary appropriation to meet costs greater than covered in appropriation law.

Ministry of Planning, Lands, Agriculture, Housing and Infrastructure: In 2013-14 the Ministry recorded a provision for bad debts of \$1 million in its supplies and consumables expenses which had not been budgeted for. This led to an overspend on supplies and consumables of \$0.5m, but this was more than compensated for through the underspend on personnel costs.

Portfolio of Legal Affairs: In 2013-14 the Portfolio spent \$903k on litigation costs, compared to a budget of \$576k and prior year expenses of \$462k. A significant factor was fees paid to third parties for specific cases as a result of staff vacancies. This overspend was matched by an underspend on personnel costs.

54. In considering the revenue generated the reader should be aware that the majority of this is provided by Cabinet to the entity. The level of revenue funded by Cabinet in 2013-14 for each M&P was between 78% and 100% (See Appendix D for details).

55. Under section 37(2)(b) of the PMFL, *“A ministry or portfolio shall not produce an output during a financial year unless – the Governor in Cabinet, or another entity or person, has by way of formal agreement, agreed to pay for the full cost of the output produced.”* It further states in section 41(1)(b) that *“A ministry or portfolio shall not – incur, in any financial year, entity expenses exceeding in total entity revenue in that year, unless otherwise agreed in writing by the Minister of Finance.”*
56. Therefore, it is possible that M&Ps can report a deficit. Over time though, if outputs are costed effectively and the full cost is billed by all M&Ps this should not be the case year on year, and they should be reporting at least a break even position over time. Unfortunately, costing systems in the M&Ps are not well developed with some M&Ps just billing 1/12th of their annual budget on a monthly basis and not the actual cost of outputs. This leads to a significant risk that M&Ps are actually incurring greater expenses than planned in delivering their budgeted outputs and approved by the Legislative Assembly. Three entities reported a deficit in 2013-14 and five in 2012-13 and none were agreed in writing by the Minister of Finance as required by the PMFL.
57. The surplus/deficit position of each entity also cannot be considered in isolation. They also need to be considered in the context of the appropriations authorized by the Legislative Assembly. The reporting of a deficit is a potential mechanism for circumventing the control of public expenditures exercised by the Legislative Assembly through their Appropriation Laws.
58. At an entity level no M&Ps have reported through their financial statements that they breached the overall appropriation limits passed by the Legislative Assembly. Exhibit 5 provides details of M&P performance against the total appropriations.

Exhibit 5: M&Ps 2013-14 Performance against Appropriations (Original Budget)

Entity	Outputs to Cabinet (\$'000)	Original Budget (\$'000)	Variance (Original vs Actual (\$'000))
Cabinet Office	4,640	4,924	284
Director of Public Prosecution	2,741	2,741	0
Information Commissioners Office	815	815	0
Judicial Administration	5,327	5,327	0
Ministry of Community Affairs (Gender and Housing)	13,688	13,714	26
Ministry of District Administration, Tourism and Transport (Tourism)	27,327	29,982	2,655
Ministry of Education, Employment and Gender Affairs #	72,675	73,855	1,181
Ministry of Finance and Economic Development (Public Finance)	17,434	18,445	1,011
Financial Services, Commerce and Environment (Financial Services)	8,104	9,668	1,564
Ministry of Health, Sports, Youth and Culture (Environment) #	17,502	17,968	466
Ministry of Home Affairs (Internal and External Affairs)	80,763	82,224	1,461
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure (DAWLA)	32,937	34,219	1,282
Office of the Complaints Commissioner	740	740	0
Portfolio of the Civil Service	6,921	7,523	602
Portfolio of Legal Affairs	5,870	5,870	0

Draft figures from the unaudited financial statements

59. It is clear that in at least two instances over the 2012-13 and 2013-14 that M&Ps have reported deficits and incurred expenses greater than the revenue provided for through appropriations, and therefore breached the spending authority provided by the Legislative Assembly.
60. The other instance where a deficit has been reported the relevant M&Ps had significant room in their appropriations to bill cabinet for more revenue, and the questions is then whether the M&P did not bill Cabinet appropriately for whatever reason to match revenues to cost of services provided or whether specific detailed appropriations have been breached.

SUMMARY

61. Looking at the information reported in the M&P financial statements, it is my opinion that they do not represent a clear picture of how each individual entity is performing and how resources are being used. In other words, the entity financial statements in their current form do not provide the necessary information to demonstrate how government has collected and spent public resources or whether government has respected the limits set out by the Legislative Assembly. The main reasons for my opinion are:

- M&Ps are not presenting annual reports which include discussion and analysis of the financial results;
- the reader needs to understand the complexities of the organisational and accounting framework employed by Government to be able to interpret the information;
- the artificial split of entity and executive transactions with M&P financial statements is not reporting the financial impact of all the activities;
- M&P do not report effectively against the legally authorized public spending limits; and
- appropriations authorised under the Appropriation Law are measured on what is billed to Cabinet, rather than the actual costs of delivering the services. Ultimately, this provides no effective control for government spending.

62. As a result, I have made it known to senior government officials that they need to consider making changes to the current financial reporting framework to provide for more effective reporting of performance of the individual entities and providing effective accountability and transparency in the use of public resources. Without simplifying the legislation or the development of considerable systems and practices that would ensure compliance with the legislation in its current form, it will be challenging for stakeholders to know how government uses public resources.

GOVERNANCE AND INTERNAL CONTROL ISSUES

63. The effective and efficient production of reliable and credible financial information is predicated on sound governance, risk management and internal control frameworks which provide management with assurance regarding the:

- effectiveness and efficiency of operations;
- safeguarding of public assets;
- reliability of information in financial reports; and
- compliance of activities with applicable laws and regulations.

64. Such frameworks enable management to use financial information with confidence throughout the year to: support effective decision making; ensure that resources are not being wasted, mismanaged or abused; and, being used in line with laws and regulations. Finally the frameworks enable entities to prepare reliable annual financial statements more efficiently and effectively, in turn leading to more efficient and timelier audits. Furthermore, the Financial Regulations specifically require that a chief officer of a M&P:

“ensure that an appropriate system of internal controls operates within the entity and that the system is adequate to safeguard the entity or executive resources for which the entity is responsible”.

65. Audits of the financial statements are designed primarily to provide opinions on the financial statements, and are not designed to identify all matters or deficiencies in the internal control environments of audited entities, or uncover instances of fraud and wrongdoing.

66. Our audits have identified a number of concerns around governance, internal control, and financial management and reporting, which we have reported to the entities through individual *“Reports to those Charged with Governance (Governance Reports)”*. Whilst these issues have not ultimately impacted on the opinions I have issued on the financial statements, they have impacted on the timeliness of financial reporting, and have probably had a negative impact on the effective and efficient use of resources, and the achievement of results.

67. Some entities are improving their management and control frameworks. However it is clear that much more still needs to be done across M&Ps.

68. In the following paragraphs we highlight the themes that we have identified from our audits over 2012-13 and 2013-14. It should be noted that these themes have not been identified in every M&P, but have been found in a number of the M&Ps. Details about the matters raised at individual M&P's can be found in their Governance Reports which are or will soon be available on our website (www.auditorgeneral.gov.ky).

RISK MANAGEMENT

69. The majority of M&Ps do not have in place robust arrangements for managing risk. Risk management is a key element of a robust internal control environment as it enables senior management to effectively achieve the Government's objectives by making well informed decisions. Without effective arrangements in place M&Ps faces the risk that they will fail in the achievement of objectives, that they will be delivered at much greater cost, or that public resources are misused or abused.
70. As part of risk management, entities should consider the risk of fraud, ensuring that they have mechanisms for identifying and responding to fraud risk factors, including the implementation of a fraud policy and fraud response plan, and developing a framework for the proactive reporting of fraud and suspected fraud.

AUDIT COMMITTEE

71. Generally accepted good practice in the management of public resources is the establishment of audit committees within entities to provide assurance on risk management, governance and internal control to the chief executive, Board or accountable officer(s). Effective audit committees can provide objective advice and insights into a public entity's strategic and organisational risk management framework, as well as identifying potential improvements to governance and internal control practices.
72. At present core government does not have an audit committee. Putting in place an independent audit committee for core government could be a strong driver for continuous improvement in internal control, financial management and financial reporting across M&Ps and provide the Deputy Governor and Chief Officers with the required assurance on the arrangements in place through a process of constructive challenge.

SUPPORTING DOCUMENTATION

73. The quality of financial statement submissions and the supporting documentation has been a significant issue for a number of years, and has directly resulted in the number of adverse opinions and disclaimers of opinion that I have issued. In the last few years there has been a significant improvement as evidenced by the fact that 2013-14 will likely be the first year that no adverse or disclaimer of opinion is issued. In particular the Ministries of PLAHI and DATT have now managed to get into a position where they are now able to provide sufficient evidence and support to enable an opinion to be placed on their financial statements.
74. Whilst there has been improvement there are still areas where M&Ps have not been able to provide sufficient supporting evidence, where documentation is weak, and where it takes M&Ps significant time to provide appropriate and sufficient evidence delaying the conclusion of the audit and the issuance of the financial statements. Therefore it is important that M&Ps continue to work on improving their documentation and ensuring that all balances and transactions are properly supported by appropriate and sufficient evidence prior to submitting their draft financial statements to my Office by 31 August.
75. The Chief Financial Officers for each M&Ps operate under the code of ethics for professional accountants and it is their responsibility to present financial statements that are in accordance with the applicable financial reporting framework, and to maintain information that:
- describes clearly the true nature of business transactions, assets or liabilities;
 - classifies and records information in a timely and proper manner; and
 - represents those acts accurately and completely in all material respects.

ORGANISATIONAL RESTRUCTURING

76. After the election in May 2013 a number of M&Ps were restructured with departments and responsibilities transferring between M&Ps. As a result financial management and reporting responsibilities changed and asset and liability balances required to be transferred. Some of the issues we have identified in our audits relate to problems associated with these transfers.
77. At present, Government doesn't have well-defined policies and procedures to effect such transfers, creating the risk that assets and liabilities transferred are misstated or unsupported. Government should have a well-documented approach as to how such transfers are handled, requiring agreement between the relevant M&Ps of the balances to be transferred, and an auditable reconciliation showing the flow and effect of net assets held before and after transfer.

78. There are also no well-defined policies with respect to reclassification of comparative information for prior years after restructuring of M&Ps. Comparative information enhances the usefulness of the financial statements for the user. However, for 2013-14 a number M&Ps did not reclassify the prior year comparatives for the changes in structure as they concluded it was impracticable to do so. Policies and procedures should be put in place for consistent application across M&Ps to enable comparative information to be appropriately reclassified.
79. The impact of not having clear direction when government is reorganized is a lack of accountability for government revenue and expenditure.

FINANCIAL ACCOUNTING IT SYSTEM (IRIS) AND FEEDER SYSTEMS

80. We have recently conducted an assessment of the information technology control environment for the financial accounting system, IRIS, and other key systems impacting on financial reporting. Apart from examining the general IT control environment we also undertook an assessment of IT security and the recent upgrade of the IRIS system.
81. The results of these assessments highlight significant risks and weaknesses in the internal control and security of systems. As a result there were risks to the effective, complete and accurate recording of transactions in IRIS.
82. The detailed results of our information technology audit are being reported to Government separately and appropriate reports will be issued to the Legislative Assembly.

HUMAN RESOURCES IT SYSTEM (HRIRIS)

83. Previously reported concerns relating to the management of government's personnel system known as HRIRIS have not been addressed. As a result, personnel costs of government are at risk of being improperly reported. For example, records relating to employees that transfer from one department/ministry to another only have their current information available and their records in the previous entity are not available. Therefore, it is not possible to reconcile the salaries paid through HRIRIS to the amounts posted to the general ledgers, making it challenging for management to monitor transactions associated with employees being transferred and effectively prepare the personnel costs information for inclusion in the financial statements.

ROLE CONFLICT (TREASURY VS MINISTRY)

84. Transactions are being posted by the Treasury Department to the accounting records of the individual M&Ps, without the knowledge of M&P's Chief Financial Officers. This is still happening despite my reporting of this issue previously. With responsibility for the financial reporting in their entities, the CFOs should have oversight of all financial transactions impacting their entities. This practice undermines the responsibility of individual M&Ps to prepare financial statements that present fairly their financial position and performance.

FIXED ASSET REGISTERS

85. A number of M&Ps continue to have issues around proper reporting of their assets. Issues identified include:

- missing or incomplete fixed asset registers;
- inconsistent asset recognition criteria;
- lack of or limited assessments of assets for valuation and possible impairment; and
- weak or limited management of assets including ensuring their existence.

RECEIVABLES AND LOANS

86. A number of ministries receive revenue from external sources by charging fees for certain services. There are times when the fees are not paid at the time when services are provided resulting in outstanding amounts (accounts receivable) that the Government must collect. We found that a significant number and value of these accounts receivable are outstanding beyond 90 days, and in some instances over a year. A number of M&Ps have made significant provisions for doubtful debts as a result. While we did not do any detailed work on the efforts made by M&Ps to collect these amounts, we have raised concerns over the effective management of accounts receivable, the potential impact on cashflow and the risk of lost revenue to the Government by not taking effective action. For example:

- as at 30 June 2014 the Ministry of Finance and Development had made provisions of \$3m for doubtful debts on gross outstanding receivables of \$7.4m;
- the Ministry of Health have made provisions for doubtful debts of \$5.9m on gross outstanding receivables of \$10m and have reported receivables of \$2.5m outstanding beyond 90 days, but less than 1 year. ;
- as at 30 June 2014 the Ministry of Education reported receivables of \$1m outstanding for over a year out of total receivables of \$11m. The Ministry has made provisions for doubtful debts of \$1.2m; and

- the Ministry of PLAHI wrote off receivables of \$1.3m during the year, and made additional provisions for doubtful debts of \$1m. As at 30 June 2014 outstanding receivables were \$8.4m with \$2.1m outstanding beyond 90 days.

87. In one Ministry we also identified that debtors continued to receive access to services despite having significant outstanding balances, or allowed to build up new debts after having balances previously written off.

FINANCIAL STATEMENT DISCLOSURES

88. The PMFL requires the Government to account for its transactions and prepare financial statements in accordance with International Public Sector Accounting Standards (IPSAS). The presentation and disclosure of information needs improvement, particularly around the narrative information in support of the notes to the financial statements, the explanation of variances and comparison of outputs billed to Cabinet against the appropriations.

89. Segment reporting is also a problematic issue. Segment reporting provides the user of the financial statements important information about the individual business units within an M&P. There is no policy about how M&Ps should identify the segments to be reported resulting in inconsistency in the presentation and analysis across M&Ps.

DEPRECIATION

90. The outputs being billed and collected from Cabinet by M&Ps include amounts for the depreciation expense of property, plant and equipment. In effect these amounts represent asset replacement funds, with M&Ps receiving cash resources for non-cash transactions. However these funds are not necessarily required for asset replacement and have not always been used for that purpose as funds for asset acquisition and replacement can be sourced through alternative means. There has also been inconsistency across M&Ps in how these funds have been treated and used.

91. To address this situation Government needs to consider the appropriate funding of non-cash transactions and developing asset replacement plans which should be monitored to ensure that adequate depreciation funds are restricted for asset replacement use only. In the event that additional funds are needed above the amounts restricted, these should be sourced through the appropriation process.

RECORDING OF TIME AND LEAVE ENTITLEMENTS

92. We continue to find weaknesses with respect to the management of leave, compensatory time and the use of the time recording system. For example, we have identified the following issues in our audits:

- employees reviewing and approving their own time sheets;
- lack of effective oversight of time recording by senior management;
- incomplete, unsigned and unauthorized leave records;
- inaccuracies in the calculation of leave balances.

93. These observations raise concerns over the accuracy of leave balances and the data in the time recording system that is used for financial reporting purposes. These concerns have led to qualifications on financial statements in the past. In addition to reporting weaknesses, there is an increased risk of fraud or error in the management of employee attendance and pay.

COMPLIANCE WITH LAWS AND REGULATIONS

94. We found a number of examples of non-compliance with relevant laws and regulations. For example we found instances of procurements not being carried out in accordance with the Financial Regulations. In particular we continue to find sole source procurements which were not competitively tendered. Whilst there may be appropriate reasons for these transactions, we have been finding little documented justifications and formal approvals for not following a competitive process.

95. In accordance with the PMFL, M&Ps are allowed to retain such part of its net operating surplus as is determined by the Minister of Finance. At 30 June 2014, a number of M&Ps had significant surpluses payable and there had not been a decision on whether the M&Ps can retain a portion or all of the surplus payable.

96. Other issues identified from our audits that we saw across M&Ps included:

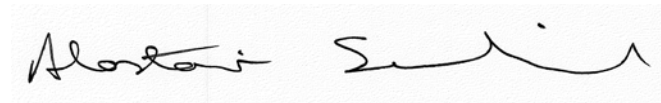
- significant number adjusting journals being processed;
- questionable travel expenditures and insufficient documentation, mainly relating to 2012-13 financial year prior to the introduction of the Government Travel Policy;
- contract management and lease issues with numerous examples of leases or contracts unsigned, or no contracts being in place;
- lack of policies to manage certain discretionary expenditures such as hospitality and cell phone usage;
- weak systems and controls within overseas offices and potential obligations in respect of value added tax (VAT) for certain activities in the UK; and
- examples of the breakdown in segregation of duties, authorisation and approval controls.

CONCLUSION

97. This report provides a summary of our audits of the ministries, portfolios and offices of the Cayman Islands Government for 2012-13 and 2013-14.
98. Whilst there are still some significant challenges to be overcome, the Government has made good progress in the last two years. They have nearly reached the position where the backlog of prior year financial statements has been cleared, and it is unlikely that any M&P financial statements for 2013-14 will receive an adverse opinion or a disclaimer of opinion, the first time this has been achieved since the introduction of the PMFL in 2004. In particular 2013-14 will be the first year that the Ministry of District Administration, Tourism and Transport and the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure or their predecessors will not receive an adverse opinion or a disclaimer of opinion.
99. However, whilst the story is one of progress, there is still some way to go to achieving accountability as expected by accounting standards and as envisioned in the *Public Management and Finance Law*, and ensure the effective stewardship of, and accountability for, public resources. In particular I have raised ongoing concerns about:
- impediments to timely completion of audits and public issuance of financial statements;
 - weaknesses in the internal control environments and governance of certain entities creating increased risks of mismanagement and abuse; and
 - the effectiveness of the current financial reporting framework to provide transparency in the use of public funds.
100. The Government is now much better placed to achieve the accountability expected by the PMFL across the M&Ps, but it will still require a lot more work if it is to be achieved, in particular if the statutory timescales of the PMFL are going to be met. There still remains considerable room for improvement, and senior officials need to ensure that they have in place appropriate systems that provide them with assurance regarding the stewardship and use of public funds they are responsible for.
101. For progress to continue towards the ultimate objective of restoring financial accountability, the Government should now set clear goals and develop a plan for achieving accountability as required by the PMFL, in both the short and medium term, and provide regular reports to the Legislative Assembly on the progress that has been made on achieving those targets.

102. The achievement of accountability for the use of public funds depends on strong leadership of the financial function in Government. This leadership is still inadequate as at the date of this report. I have discussed my concerns with the Deputy Governor about the lack of leadership in the past and the need for clear direction going forward. To ensure proper accountability, I have urged the Deputy Governor to resolve this issue as a matter of priority.

103. I strongly recommend that the Legislative Assembly take note of my findings in this report and act promptly to ensure the Deputy Governor and his senior officials take action to provide proper accountability for the use of public funds and mitigate the risks and opportunities for loss.

A handwritten signature in black ink, appearing to read 'Alastair Swarbrick', written on a light-colored background.

Alastair Swarbrick MA(Hons), CPFA, CFE
Auditor General
George Town, Grand Cayman
Cayman Islands

25 September 2015

APPENDIX A – STATUS OF THE 2013-14 AUDITS

Entity	Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office	1 May 2015	Qualified	13 August 2015
Director of Public Prosecution	31 October 2014	Unqualified	20 May 2015
Information Commissioners Office	31 October 2014	Unqualified	
Judicial Administration	31 October 2014	Qualified	15 April 2015
Ministry of Community Affairs	31 October 2014	Unqualified	27 November 2014
Ministry of District Administration, Tourism and Transport	31 October 2014	Qualified	27 November 2014
Ministry of Education, Employment & Gender Affairs	In Progress		
Ministry of Finance and Economic Development	25 May 2015	Qualified	13 August 2015
Ministry of Financial Services, Commerce and Environment	13 July 2015	Unqualified	
Ministry of Health, Sports, Youth and Culture	In Progress		
Ministry of Home Affairs	30 June 2015	Qualified	
Ministry of Planning, Lands, Agriculture, Housing and Infrastructure	10 August 2015	Qualified	
Office of the Complaints Commissioner	31 October 2014	Unqualified	12 August 2015
Portfolio of the Civil Service	31 October 2014	Unqualified	27 November 2014
Portfolio of Legal Affairs	31 October 2014	Qualified	17 April 2015

APPENDIX B – STATUS OF THE 2012-13 AUDITS

Entity		Date Audit Completed or Progress	Audit Opinion	Tabled in the Legislative Assembly
Cabinet Office		31 October 2013	Qualified	8 December 2014
Director of Public Prosecution		25 October 2013	Unqualified	29 January 2014
Information Commissioners Office		29 October 2013	Unqualified	
Judicial Administration		24 October 2013	Qualified	
Ministry of Community Affairs, Gender and Housing		30 June 2014	Unqualified	27 November 2014
Ministry of District Administration, Works, Lands and Agriculture		13 May 2015	Disclaimed	
Ministry of Education, Training and Employment		In Progress		
Ministry of Financial Services, Tourism and Development	Finance and Economics	27 November 2014	Qualified	
	Financial Services	23 February 2015	Unqualified	15 April 2015
	Tourism & Development	18 June 2014	Disclaimed	24 October 2014
Ministry of Health, Environment, Youth, Sports and Culture		9 June 2015	Unqualified	
Office of the Complaints Commissioner		31 October 2013	Unqualified	8 December 2014
Office of the Premier		4 August 2014	Unqualified	8 December 2014
Portfolio of the Civil Service		28 October 2013	Unqualified	9 April 2014
Portfolio of Internal and External Affairs		15 May 2015	Qualified	
Portfolio of Legal Affairs		29 October 2013	Qualified	29 January 2014

APPENDIX C - AUDIT OPINION DEFINITIONS

The opinions that I can render on an entity's financial statements and their definitions are as follows:

- **Unqualified** - The information contained in the financial statements can be relied upon;
- **Qualified** - A qualified opinion means that a portion of the financial statements cannot be relied upon, but that the rest of the statements can be relied upon by the reader;
- **Adverse** - There are such significant deficiencies with the information in the financial statements they should be considered unreliable for the user and the information contained therein is not trustworthy; and
- **Disclaimer** - I was not provided with sufficient information to conduct an audit.

APPENDIX D – SUPPORTING FINANCIAL ANALYSIS

Table 1: M&P Expenses Trend Analysis over the period 2009-10 to 2013-14

Entity	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)	2013-14 (\$'000)	Original Budget 2013-14 (\$'000)	Variance Actual vs original Budget (\$'000)
Cabinet Office	13,481	12,081	14,679	10,249	5,669	5,726	57
Director of Public Prosecution	N/A	N/A	2,634	2,560	2,660	2,741	81
Information Commissioners Office	N/A	614	599	619	795	815	20
Judicial Administration	4,837	4,856	5,244	5,144	5,495	5,369	(126)
Ministry of Community Affairs (Gender and Housing)	13,876	13,308	12,767	12,989	12,887	13,776	889
Ministry of District Administration, Tourism and Transport (Tourism)	50,215	39,164	41,464	35,170	29,566	30,313	747
Ministry of Education, Employment and Gender Affairs #	68,019	62,965	69,893	71,604 [#]	72,509 [#]	75,363 [#]	2,853 [#]
Ministry of Finance and Economic Development (Public Finance)	18,889	17,483	17,114	17,761	17,958	18,486	528
Ministry of Fin. Services, Commerce and Environment (Financial Services)	N/A	7,994	8,345	8,191	9,166	10,492	1,326
Ministry of Health, Sports, Youth and Culture (Environment) #	11,368	9,794	9,563	11,320	20,041 [#]	21,435 [#]	1,394 [#]
Ministry of Home Affairs (Internal and External Affairs)	69,639	67,880	69,413	74,401	87,701	88,630	929
Ministry of PLAHI (DAWLA)	64,175	63,839	74,325	65,487	43,949	43,996	47
Office of the Complaints Commissioner	673	630	620	615	646	740	94
Office of the Premier	N/A	N/A	N/A	1,843	N/A	N/A	N/A
Portfolio of the Civil Service	3,050	2,626	2,589	1,796	7,041	7,989	948
Portfolio of Legal Affairs	7,865	7,833	6,056	5,998	6,543	6,644	101

[#] Draft figures from the unaudited financial statements

Table 2: M&P 2013-14 Revenue Analysis

Entity	Outputs to Cabinet (\$'000)	Other Sources (\$'000)	Total Revenue (\$'000)s	% Revenue Cabinet Funded
Cabinet Office	4,640	1,293	5,933	78.2
Director of Public Prosecution	2,741	1	2,742	100.0
Information Commissioners Office	815	0	815	100.0
Judicial Administration	5,327	58	5,385	98.9
Ministry of Community Affairs (Gender and Housing)	13,688	159	13,847	98.9
Ministry of District Administration, Tourism and Transport (Tourism)	27,327	488	27,815	98.2
Ministry of Education, Employment and Gender Affairs #	72,675	2,088	74,763	97.2
Ministry of Finance and Economic Development (Public Finance)	17,434	3,102	20,536	84.9
Ministry of Fin. Services, Commerce and Environment (Financial Services)	8,104	1,600	9,704	83.5
Ministry of Health, Youth, Sports and Culture (Environment) #	17,502	4,134	21,636	80.9
Ministry of Home Affairs (Internal and External Affairs)	80,763	9,708	90,471	89.3
Ministry of PLAHI (DAWLA)	32,937	9,474	42,411	77.7
Office of the Complaints Commissioner	740	0	740	100.0
Portfolio of the Civil Service	6,921	627	7,548	91.7
Portfolio of Legal Affairs	5,870	795	6,665	88.1

Draft figures from the unaudited financial statements

APPENDIX E – INDIVIDUAL ENTITY REPORTING

1. This appendix provides details of the specific matters that were included as qualifications in the Audit Reports of individual entities, as already highlighted in paragraphs 8 to 15 of the main report. Also provided are the emphasis of matters or other matters that were included in the Audit Reports (opinion) for each M&P, in other words those matters which we considered important enough to draw to the attention of the users of the financial statements but which did not result in a qualification.
2. With respect to the outstanding audits of the Ministry of Education, Training and Employment for 2012-13 and 2013-14, and the Ministry of Health, Sports, Youth and Culture for 2013-14 no commentary is provided as it is not appropriate to report the final outcomes of these audits before the audit report is signed.

CABINET OFFICE

3. For the years ended 30 June 2013 and 30 June 2014, the financial statements of the Cabinet Office received a qualified opinion in respect of property, plant and equipment. Due to issues with the supporting documentation in 2013-14 assets were omitted from the fixed asset register. As a result I was unable to confirm satisfactorily the completeness, existence and valuation of property, plant and equipment and whether the balance was fairly stated. Consequently I was also unable to assess the impact on the accuracy of the depreciation recorded in statement of financial performance.
4. In addition for the year ending 30 June 2014, the opinion was also qualified in respect of
 - **Surplus Payable:** I was unable to confirm the accuracy of the surplus payable balance of \$1,786,000 at 30 June 2014 due to the impact of the possible understatement of depreciation.
 - **Net Worth:** As a result of the issues related to property, plant and equipment as well as differences related to the transfer of departments, net worth was not fairly stated at 30 June 2014.

INFORMATION COMMISSIONERS OFFICE

5. For both the years ended 30 June 2013 and 30 June 2014, the financial statements of the ICO received unqualified opinions. However for the year ending 30 June 2014 I raised one other matter in my audit report with regard to excess expenses for litigation costs in the amount of \$44,363. This excess expense was authorized by Cabinet under section 11 of the Public Management and Finance Law, but as at the date of this report being issued a Supplementary Appropriation Bill has not been passed into law by the Legislative Assembly to regularize this excess expenditure. Our opinion is not qualified in respect of this matter.
6. As part of our audit of the Nation Building Fund we also we noted that the ICO was paid an amount of \$49,000 in 2012-13 to cover the cost of legal fees incurred which was not in their authorized budget. This payment effectively circumvented Legislative authority and provided funding beyond the amount authorized by the Members of the Legislative Assembly for the operations of the ICO.

JUDICIAL ADMINISTRATION

7. For the years ended 30 June 2013 and 30 June 2014, the financial statements of the Judicial Administration received a qualified opinion as I was unable to reach an opinion on the completeness, existence, accuracy and valuation of the property, plant and equipment recorded at both 30 June 2013 and 30 June 2014, as a detailed fixed asset register was not effectively maintained. Resulting from this the depreciation expense incurred in both years and the equity as at both year ends were also both impacted.

MINISTRY OF DISTRICT ADMINISTRATION, TOURISM AND TRANSPORT (AND TOURISM DEPARTMENT FOR 2012-13)

8. For the year ending 30 June 2014 the Ministry's financial statements were qualified on 6 matters. These were:
 - **Inventory:** The Ministry did not have sufficiently robust controls in place to ensure that its Inventory on hand was reported in the financial statements and this account balance was omitted from the financial statements.
 - **Property Plant and Equipment and Depreciation Expense:** I did not receive sufficient and appropriate audit evidence to conclude that the Property, Plant and Equipment and the associated depreciation expense included in the financial statements were fairly stated as at 30 June 2014.

- **Trade Payables:** I was unable to substantiate purchase orders (POs) of \$195,000. Due to the potential effects of the POs on the trade payables, I was unable to conclude that account as a whole was fairly stated as at June 30, 2014.
 - **Supplies and Consumables:** I did not receive sufficient and appropriate audit evidence to conclude that the Supplies and Materials were fairly stated due to poor accounting and significant control matters as it relates to the controls over the inventory management process.
 - **Statement of Cash Flows:** Prior to the commencement of my audit procedures, I received representations from management to the effect, that they could not provide me with supporting documentation required to validate the statement of cash flows.
 - **Net Worth:** Based on the above matters and representation received from management I did not receive sufficient and appropriate audit evidence to conclude that the Net Worth was fairly stated.
9. Without further qualifying my opinion I also highlighted in my audit report three additional matters:
- in the explanation for “supplies and consumables” variances the Ministry was authorized under section 11(5) of the Public Management and Finance Law to make adjustments to its appropriations for an amount of \$132,000 for exceptional circumstances. As at the date of my audit report being issued, the Supplementary Appropriation Bill had not been passed into Law by the Legislative Assembly.
 - the Ministry presented prior year figures that were not comparable to its current year financial statements information as required by accounting standards; and
 - expenditures incurred under Output Group numbers DAT 2, DAT 6, DAT 9, DAT 14 exceeded the respective amounts approved in the *Appropriation Law 2014*.
10. With respect to the 2012-13 financial statements of Tourism, which was part of the Ministry of Financial Services, Tourism and Development at that time, I issued a disclaimer of opinion. The management of Tourism was unable to represent to me that they could provide the necessary support to allow me to reach an opinion on the fair presentation of their financial statements. Therefore I was required to issue a disclaimer of opinion in line with the requirements of auditing standards.

MINISTRY OF HOME AFFAIRS (PREVIOUSLY PORTFOLIO OF INTERNAL AND EXTERNAL AFFAIRS)

11. For the year ended 30 June 2014 the Ministry of Home Affairs' financial statements received a qualified opinion on one issue. I was unable to determine the completeness, accuracy and existence of the Employee Entitlements amounting to \$2.9 million due to the absence of well-maintained annual leave records and as a result was not able to satisfy myself that the accumulated surplus of \$1 million was fairly stated.
12. The Portfolio of Internal and External Affairs' financial statements for the year ending 30 June 2013 were also qualified. This was also in relation to being unable to determine the completeness, accuracy and existence of the Employee Entitlements amounting to \$2.9 million.

MINISTRY OF PLANNING, LAND, AGRICULTURE, HOUSING AND INFRASTRUCTURE (FORMERLY MINISTRY OF DISTRICT ADMINISTRATION, WORKS, LANDS AND AGRICULTURE)

13. The financial statements of PLAHI for the year ending 30 June 2014 were qualified in respect of inventory and supplies and materials:
 - **Inventory:** The Department of Vehicle and Equipment Services (DVES) and Department of Agriculture did not have sufficient controls in place to ensure that the Ministry's inventory on hand was reported in the financial statements and as a result I am unable to satisfy myself of the completeness, existence, accuracy and proper valuation of inventory as at 30 June 2014.
 - **Supplies and Materials:** I did not receive sufficient and appropriate audit evidence to conclude that the Supplies and Materials account amounting to \$6.6 million was fairly stated due to poor accounting and significant deficiencies of the controls over inventory management.
14. For the year ended 30 June 2013 I issued a disclaimer of opinion on the DAWLA's financial statements. We were not able to obtain sufficient and appropriate evidence to reach an opinion due to significant limitations in supporting documentation as well as material deficiencies in the internal control environment. There are a significant number of issues that led to this position. In the audit report we reported that we were unable to:
 - obtain sufficient and appropriate audit evidence to determine whether the total account balances for **trade payables, other payables and accruals** disclosed in the financial statements were free of material misstatements. Due to the absence of this information, we were unable to satisfactorily confirm that the amount reported was fairly stated;

- ascertain the accuracy and completeness of its **property, plant and equipment** in the amount of \$35.2m and the related net worth or surplus/deficit accounts in the financial statements, as the entity made no adjustments to recognize the carrying amount of its assets as a result of the revaluation completed as at 30 June 2013. As a result I was also unable to determine whether the related depreciation calculation of \$1.9m reflected in these financial statements was fairly stated;
- verify the completeness of the **accounts receivable** due to the inadequacies of the internal controls, which did not facilitate the sequential numbering of invoices and receipts;
- obtain assurance on the completeness of **other revenues of \$15.6m** (2011-12: \$15.2m) due to system flaws which did not facilitate the sequential numbering of invoices; and
- to determine the accuracy and completeness of the **net worth** balance of \$56.7m (30 June 2012: \$39.3m) due to the lack of supporting evidence as well as the other issues reported in the previous paragraphs which directly impact the net worth balance.

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT (FORMERLY PUBLIC FINANCE)

15. The Ministry of Finance and Economic Development's financial statements for the year ending 30 June 2014 and the Public Finance's financial statements for the year ending 30 June 2013, were both qualified due to the lack of supporting documents relating to Warehousing Fees which is a component of general sales. I was not able to verify the completeness of the general sales reported of \$1.598 million for the year ended 30 June 2014 and \$1.596 million for the year ended 30 June 2013. Of the total general sales, \$910 thousand specifically related to Warehousing Fees for the year ended 30 June 2014 and the year ended 30 June 2013.
16. Public Finance's financial statements for the year ending 30 June 2013 were also qualified in respect of property, plant and equipment. Effective 1 July 2012, Public Finance started carrying its buildings in accordance with the revaluation model. However, the value of the buildings was not properly divided into its material components ("componentization") as required by accounting standards. As a result I was not able to determine the accuracy of depreciation expense. Because of this scope limitation I was unable to determine whether depreciation charged for the year and consequently the net book value for buildings were fairly stated as at 30 June 2013. As a result I was also not able to verify the fairness of the accumulated deficit at 30 June 2013.
17. Without further qualifying my opinion, for both years I highlighted in my audit report the Ministry was not able to completely effect the collection of certain types of Inspection Fee revenue classified under Fees and Charges in the financial statements, governed by Schedule 5 of the *Customs Tariff Law*.

PORTFOLIO OF LEGAL AFFAIRS

18. For the years ended 30 June 2013 and 30 June 2014, the financial statements of the Judicial Administration received a qualified opinion as I was unable to reach an opinion on the completeness, existence, accuracy and valuation of the property, plant and equipment recorded at both 30 June 2013 and 30 June 2014, as a detailed fixed asset register was not effectively maintained. Resulting from this the depreciation expense incurred in both years and the equity as at both year ends were also both impacted.

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Complaints

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Freedom of Information

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